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Master Thesis

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INFLUENCE OF EU COMMON ENERGY POLICY ON LITHUANIA'S ENERGY
SECURITY AFTER THE TREATY OF LISBON

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I have written the Master's thesis independently.

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INFLUENCE OF EU COMMON ENERGY POLICY ON LITHUANIA'S ENERGY SECURITY AFTER THE TREATY OF LISBON

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The Treaty of Lisbon brought many innovations into the European Union's agenda, one of which is related to energy policies. The treaty came into force in 2009; until now there has been no evaluation of its practical implementation, especially concerning those member states that are particularly sensitive to all the changes that take place in the energy sector. The thesis "INFLUENCE OF EU COMMON ENERGY POLICY ON LITHUANIA'S ENERGY SECURITY AFTER THE TREATY OF LISBON" analyses the influence of post-Lisbon European Union common energy policies on Lithuania's energy security. Using Rational Choice Institutionalism as a theoretical approach, the evaluation of the implementation of EU energy policies is done looking at how it minimizes energy security risks in its member state. The Traffic Light Model is used to produce the necessary classification of risks. The research is carried out using secondary data resources, document analysis and expert interviews. It can be observed that post-Lisbon policies have had a positive influence on Lithuania's energy security; even the policies that are imposed by the Union are in accordance with Lithuania's objectives. However, the result would be more tangible if Lithuania managed to take advantage of all the opportunities presented by the EU.

Keywords: The treaty of Lisbon, common energy policy, Lithuania's energy security, energy security risks.

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INTRODUCTION

Significant changes can be witnessed in the process of European Integration regarding Energy policy. Decisions are moving towards a more integrated EU energy policy, thus trying to create a common policy field. From a historical perspective, however, this policy has been based on the principle of sovereignty, mostly looking at the interests of the big member states such as France, Germany or Italy. This attitude is highly reflected in the main EU documents.

The Maastricht Treaty was signed in 1992, officially establishing the European Union. On the one hand, this treaty was a major step towards a more consolidated Union and also meant an advance in common monetary policy. On the other hand, even though it had an important role in the integration process, the Maastricht Treaty established very little on energy policy. After analyzing the treaty, only a vague reference to common energy policy was found in the chapter 'Trans-European networks'. Title 12 defines that in order to 'enable citizens of the Union to derive full benefit from the setting up of an area without internal frontiers, the Community shall contribute to establishment and development of trans-European networks in the areas of transport, telecommunications and energy infrastructures' and 'Community shall aim at promoting the interconnection and inter-operability of national networks...'¹ In this way the Maastricht Treaty provides a timid allusion to common energy policy, but fails to make a firm stance on the matter.

In 1997 the Treaty of Amsterdam was signed, which would be a step further to creating a more integrated Union. The main focus was given to Common Foreign and Security Policy (CFSP), consequently dealing with new threats in the international arena. The solidarity clause was extended arguing that 'the member states shall work together to enhance and develop their mutual political solidarity'.² This is important, as solidarity also meant paying more attention to enhancing communication in the energy sector. In spite of this, no direct reference to common energy policy was given.

¹Treaty on European Union, *Official Journal of the European Union* 51, July 1992, <<http://eur-lex.europa.eu/en/treaties/dat/11992M.html>>

²The Treaty of Amsterdam, Amending the Treaty on European Union, The Treaties Establishing the European Communities and Certain Related Acts, *Official Journal of the European Communities*, October 1997, < www.eurotreaties.com/amsterdamtreaty.pdf>

The establishment of Treaty of Nice in 2001 was directly related to the large-scale expansion in 2004. The aim of treaty was to prepare EU institutions to work with a significantly larger number of member states. The Treaty of Nice established explicit rules on voting and regulated the distribution of votes in different EU institutions.³ Nonetheless, no changes in energy policy were defined.

Along these lines it can be observed that before the Lisbon Treaty came into force no major steps were taken towards common EU energy policy. The analysis of the main treaties concerning EU integration has shown that the more powerful veteran member states did not show much initiative on the matter. This is why the Lisbon Treaty became a breaking point in establishing a more unified energy policy.

It took almost eight years for The Treaty of Lisbon to come into force in December of 2009. This treaty is considered to be one of the main breakthroughs for further consolidation of the European Union (EU). The Lisbon Treaty changed every existing EU treaty and became the fundamental document in the Union. It brought significant changes to the structure of the EU by establishing new positions (such as High Representative and President of European Council), strengthening the power of the institutions (especially the European Parliament) and dealing with the problem of democratic deficit (by developing Citizen Initiative). This treaty is important because it defines the guidelines for the future EU policies, reallocates its priorities and presents the aims of the Union.⁴ It also introduces references to relatively new challenges, such as climate change and energy solidarity, particularly to address concerns expressed by countries like Lithuania and Poland. This treaty is crucial to EU energy security because, for the first time, EU energy policy is widely debated in an EU document of such nature. It therefore establishes new means of improving the quality of EU energy security by, for instance, introducing an energy solidarity clause.⁵

In general the energy policy in EU is relatively new but is a rapidly evolving field. This unprecedented process can be explained by three main reasons.

³Treaty of Nice, Amending the Treaty on European Union, The Treaties Establishing the European Communities and Certain Related Acts, *Official Journal of the European Communities*, March 2001, 1-80, <eur-lex.europa.eu/en/treaties/dat/.../12001C_EN.pdf>

⁴T. Jakštas, Ar Lisabonos sutartis turi įtakos Europos Bendrosios energtikos įgyvendinimui?, *Politologija* 4 (60), 2010, P.114

⁵Ž. Vaičiūnas, Europos Sąjungos Bendros energetikos politikos formavimasis ir Lietuvos interesai, *Politologija* 3(55) 2009, P.87

Firstly, the enlargement in 2004, when EU accepted ten new member states for Central and Eastern Europe. Their standards in energy security were rather low when compared with the older member states. Secondly, the evolution of other policy fields (such as environment or competitiveness) meant that energy policy could not just be a part of these policies anymore, but had to establish a new separate agenda. And finally, the emergence of particular problems with energy supply, such as the conflicts between Russia and Ukraine or Russia and Belarus which resulted in gas supply disturbances.⁶

The Treaty of Lisbon would constitute a call for more cooperation in order to eliminate risks in the field of Energy security. It is not evident, however, that the treaty has reached its goal. It was certainly a big step towards EU common energy policy and Euro optimists believed that it would bring significant changes. This being said, there is no obvious evidence that it succeeded to improve the situation by alleviating the risks that some member states are still facing.

The **aim** of this paper is to analyze the changes brought on by the Treaty of Lisbon and the actions of the EU that followed it, focusing on the effect they had on energy security in the member states that has low level of energy security. Using the principal- agent model based on the main assumptions of Rational Choice Institutionalism theory the main **question** in this thesis is formulated as follows: whether the European Union as an agent fulfills member states (as a principals) preferences in the field of common energy policy.

Analyzed situation is best explained using the Rational Choice Institutional (RCI) **approach**. This approach is suitable for this paper as it analysis relations between member states and EU institutions, showing how interconnections between them is effecting the policy outcomes. This theory tries to explain the interaction between international institutions and separate actors. It argues that states have well defined preferences and their actions are determined by them⁷. However, sometimes in order to achieve their goals states cannot act alone. They have to give some of their power to the institution, in this way situation of principal- agent model is created. This model helps to schematize the relation between the state and the

⁶ Vaičiūnas, P. 92

⁷ S. Bunse, Leadership by Lilliputians – Small State Council Presidencies in the European Union, *INCAE Business School*, 2007, P. 4

institution. Yet it is important to point out that there are institutions which prevent states to act only according to their own interests. Wiener and Diezstate argue that ‘Even though actors are regarded as calculative utility- maximizers it has to be emphasized the significance of institutional context as constrains to the strategic and rational behavior of actors’.⁸ According to RCI, institutions have the power to shape policies and states are not able overrule them.⁹ Institutions are perceived as the way to overcome the collective action dilemma and reduce the level of uncertainty between different actors. In this study we have a situation when the member state, having clearly defined goals in the energy field, are constrained by the EU institutions and have to become policy entrepreneurs in order to achieve their goals. In order to see how these interactions between EU institutions and member state are working in practice this study tries to define the level to which energy security risks in the member state are tackled. As small members states with low levels of energy security do not have enough recourse to deal with it alone international help is required. It is in the interest of the member state to abolish these risks and EU policies are understood as institutions that would benefit from this interest. In order to see how these relations are implemented in the real life there is a necessity to find a research model that would allow evaluating the principal – agent relations between the EU and it member state.

The model that suits the best this work is the Traffic Light **Model** of acceptable, tolerable and intolerable risks. It will be used to see what are the main issues these states facing. This model originated in Risk Governance Council, later similar methodologies were used in such organizations as International Country Risk Guidance, as well as governmental institutions (for example US Congress). Model that will be applied in this paper is an attempt to assess energy risk intensity in Baltic States.¹⁰ The Traffic Light Model defines the factors that cause high levels of alarm in the field of energy security. This model includes the most relevant energy security risks in the Baltic States (as of today and in a 10 years perspective), identifies most urgent short-term and long-term risks and proposes indicators for assessment of damage and

⁸ A. Wiener, T. Diez, *European integration theory*, 2.ed, Oxford: Oxford University Press. 2009 P. 47

⁹ E. Immergut, The Theoretical Core of the New Institutionalism, *Politics Society*, 26 (5), 1998 ,P. 13
<<https://www2.sowi.hu-berlin.de/lehrbereiche/comppol/pubbb/pdfs/emi1998pas.pdf>>

¹⁰ A. Molis, Building methodology, assessing the risks: the case of energy security in Baltic States, *Baltic Journal of Economics* 11 (2), 2011, P.60

the probability of its occurrence¹¹. The analysis of EU common energy policy will be carried out using these well-defined factors, by trying to assess the level to which it does eliminate these risks and ensure energy security in this region. It is important to note, that the purpose of this paper is not to evaluate the model, the main attention is given to the evaluation of EU policies. Model is used as a tool to reach the aim. It is acknowledged that there are different energy risks classifications. For example A. Checchi suggests a classification of security of supply risk including geopolitical, economic, geological, technical and environmental risks. While experts at the NATO Energy Security Centre of Excellence, states that risks can be classified as follows: technical, natural, economic, social, political and terrorist. The nature of risks can be very diverse, depending on in which country and geopolitical region the energy system is established. That is why this particular model was chosen because it is adapted to particular region, where case study state is located. What is more, in order to define the risks in this model interviews were made in case study country with the experts in this field.

The **concept** of “energy security” itself is complex and is as L. Chester argues: “inherently slippery because it is polysemic in nature, capable of holding multiple dimensions and taking on different specificities depending on the country (or continent), timeframe or energy source to which it is applied”¹² This broad definition can bring about analytical difficulties, as it can lead to confusion in understanding what has been done before in the field of energy security. For example, P.L. Cornell proposes to define “energy security” in a national security context using a three level model of national security, which would include functionality of security services, functioning of domestic services and economic well-being.¹³ Meanwhile, the Copenhagen School has suggested quite an innovative approach, explaining security not as a direct outcome of the threat, but as the political interpretation of that threat, which is more specific.¹⁴ However, these definitions do not define the exact elements of energy security. For this

¹¹Molis, P.60

¹²L. Chester, Conceptualising energy security and making explicit its polysemic nature, *Energy Policy*, Volume 38, Issue 2, 2010, P. 887

¹³P. E. Cornell, Energy and Three Levels of National Security: Differentiating Energy Concerns within a National Security Context, *The Quarterly Journal*, 2009 P. 85

¹⁴A. V. Belyi, New dimensions of energy security of the enlarging EU and their impact on relations with Russia, *European Integration*, Vol. 25 (4), 2003, P.353

reason, the definition which we will consider to be most relevant to this study is given by the International Energy Agency (IEA). It describes the concept of energy security as the “uninterrupted physical availability of energy sources at an affordable price, while respecting environment concerns”.¹⁵ This definition relates long term energy security to geopolitical events and the unpredictable actions of other actors, which can sometimes have disastrous consequences and require a longer time period to amend. There is also short term energy security issue which concerns the ability of the system to deal with sudden changes in the energy field, such as arguments about prices or disruptions in supply.

Energy security as research field has generally been receiving significant attention in recent decades. This is especially true when analyzing the global energy system and the actors operating in it. For this study, however, the most important investigations are those talking about energy security on a national level. These studies are essential for building the research model. Subsequently, the most relevant articles to the theoretical part of this study are those related to Rational Choice Institutionalism. Most of the authors we are going to be working with have already been mentioned in previous pages, but it is important to emphasize that RCI is not an approach that originated from the EU integration theories or from the energy security study field. This is precisely why exhaustive research concerning EU energy policy has not been done.

To complement the theoretical part of this study, further **material** will be used for the empirical part of the research. Here we can divide the articles in three main areas. Firstly, the literature that is dealing with EU common energy policy such as articles as written by Vaičiūnas or Eikland. The second topic that is relevant to the empirical part of the research works with materials that discuss European Union energy policy after the Lisbon Treaty, for example studies made by Braun, Andoura or Jakstas. However, these studies only provide theoretical assumptions about how this treaty should work; no practical evaluation is presented. The third package of material is case specific; articles are related to Lithuania’s energy security.

Lithuania as a **case study** was chosen for few main reasons. As it was a previously mentioned, after the expansion in 2004 the new member states brought their

¹⁵Molis, P. 60

energy dependency problems to EU level. Energy security problems in the Baltic States (including Lithuania) were identified in 2006 at the European Commission energy green paper¹⁶. Lithuania, Latvia and Estonia are described as an ‘isolated energy island’, suggesting that from the standpoint of energy infrastructure these three states are isolated from other EU member states, especially in the gas sector. This means that they are particularly sensitive to all the changes that occur in the energy sector. From all Baltic States Lithuania has particularly complicated situation, closing of the Nuclear Power Plant (this meant more independence of gas import) and paying the highest price for the natural gas has decreased its levels of energy security more than in other Baltic States.

One more reason why Lithuania was chosen as a case study is because it has been participating most actively in strengthening EU common energy policy. Common EU energy policy innovations are always welcomed in this country and are adopted adequately fast. What is more, Lithuania is also known as the most active actor in promoting common EU energy policy. Being highly dependent on Russia, this state is particularly interested in more cooperation between the members states in dealing with problems related to communication with its big neighbor on energy issues. In this way the Treaty of Lisbon offered more opportunities to Lithuania to present its national preferences on the European level. Parallel to this, EU institutions are affecting Lithuania’s policies in different ways.

In order to achieve the aim of this paper, three main tasks are determined:

1. To find and accommodate a research model that could be used to assess the effect of EU common energy policy after the Treaty of Lisbon on energy security of its member state.
2. To use this research model as a base to analyze the impact of these new policies on Lithuania’s energy security in particular.
3. To evaluate what implications the EU common energy policy that was established after the Lisbon Treaty could have on the elimination of energy security risks in Lithuania.

¹⁶EU Commission Green Paper - A European Strategy for Sustainable, Competitive and Secure Energy {SEC(2006) 317}

The *dependent variable* in this paper concerns energy security risks that Lithuania is facing, more precisely these risks will be introduced in the chapter about Traffic Light Model. The *independent variable* in this paper is the European Union common energy policy after the Treaty of Lisbon.

Research will be carried out in two main parts, which are supported by different **methodology**. The first theoretical part is used to establish the research model based on the Traffic Light Model of acceptable, tolerable and intolerable risks. This model is the basis of the empirical part of the paper. The main assumption of Rational Choice Institutionalism will be defined as well. The contribution of this theoretical approach to this research will be explained. This part of the paper is prepared using secondary data recourses and based on descriptive method.

The second empirical part includes the analysis of the collected data using the already mentioned Traffic Lights Model. Firstly, the innovations brought by the Treaty of Lisbon are discussed, trying to explain its effect on a member state. After this, using the case study of Lithuania, the analysis of EU energy policy on energy security is will be done. Here analytical method plays the main role, using the primary data (documents and interviews) case study contributes to the answering research question. The main legal changes that have been brought by Lisbon treaty will be unfolded after analysis on existing EU legal documents. However, in order to show practical influence of European Union decisions more data is necessary. Semi-structured qualitative expert interviews were carried out. Questionnaire composed of ten questions was prepared according to the Traffic Light Model risk classification. The interviewees were experts working in the field of energy policy field, mainly dealing with energy security and EU energy policies. Three such interviews were taken.

The summary of the paper should provide the reader with research conclusions and give the answer to the research question that has been raised in this part of the thesis. Suggestions for further analysis will be given as well.

1. Rational Choice Institutionalism as a theory to define relations between member states and EU institutions

1.1 Main assumptions of Rational Choice Institutionalism

As was already mentioned in the introduction, the theory of Rational Choice Institutionalism did not originate from the European Integration theories nor is its approach popular in the field of study of energy security. Its growing importance in European Union studies, however, can be observed. In this chapter the main assumptions of the theory will be introduced, laying out the basis of this study. Subsequently, we will assess the theory, producing a fully explained critique. Finally, we discuss the relevance of the RCI in EU studies showing why it fits our research model.

Before discussing the main themes, however, an explanation of the concept of institutions has to be made in order to avoid any misunderstanding. Institutions are a key concept in the literature of Rational Choice institutionalism, although paradoxically it is also the most confusing one. Institutionalists are still struggling with the definition of this concept and many of these definitions are applied in different lines of research. However, RCI has been focusing on two main interpretations and for the purpose of this paper the more functionalist interpretation has been chosen. According to this approach, institutions are perceived as the rules of the game provided by the rulers themselves.¹⁷ These rules emerge as a result of the interdependence of the actors, their strategic interaction with each other and the collective action taken by these actors or the contrasting dilemmas that they face. These institutions emerge and survive because they fulfil important functions for the individual actors affected by these institutions.¹⁸ In the case of our research topic these rules are defined as the decisions made by the EU institutions that have an effect on state members.

There are three main types of New Institutionalisms. The most relevant for this study is, however, the RCI, representatives of this theoretical approach argues that

¹⁷K. Shepsle, Rational Choice Institutionalism, in R. Goodin, *Oxford Handbook of Political Institutions*, 2006, P.24

¹⁸J. Talberg, Ch. Jonsson, "Institutional Theory in International Relations," in Jon Pierre, B. Guy Peters & Gerry Stoker (eds), *Debating Institutionalism*, Manchester and New York: Manchester University Press, 2008 P. 1-30

utility-maximizing individuals (or, at the international level, states), acting out of self-interest, are central actors in the political process, and that the institutions emerge as a result of their interdependence, strategic interaction and collective action or contracting dilemmas.¹⁹ Institutions emerge and survive, because they fulfil important functions. Participation in particular collective action is understood as the cost and benefit analysis.

As distinct from Historical or Sociological institutionalism, rational theory suggests functional analysis of institutions, when institution is defined according to its actual influence and is of direct usage of the actors aiming at the well-defined goals. RC institutionalists believe that institutions can have influence on policy formation. Even having their clear defined preferences and using their power states cannot change this.

Although originally formulated in the context of American political institutions, RCI is applicable across a range of other comparative and international political context. In the recent years, for example, comparativists have applied this approach to the comparative study of the design of political institutions, the significance of the 'veto points' in public policy making and delegation of powers to independent agencies and courts.²⁰ Latter is particularly important in this study as draws attention to the principal – agent model. Traditionally states are viewed as the principals, delegating functions to international bodies as agents. The RCI suggest another application of this model, where the possibility of an agent pursuing its own rather than the principal's interests is a major consideration.²¹

RCI is defined by three main premises: 1. Methodological individualism, which simply means that this approach explains individual and collective actions as the aggregation of individual choices. Individuals are acting according to their preferences, which are clearly defined and exogenous. 2. Goal seeking and utility maximizing. This means that individuals are prone to choosing the action that is likely to maximize their utility. It is assumed that states with fixed preferences would carefully calculate the possible utility and alternative options. 3. The existence of various institutional or strategic constraints on individual choice. Here RCI emphasizes the institutional

¹⁹Talberg, P. 5

²⁰Pollack, P. 14

²¹Talberg, P. 6

constrains on individual behaviour, exploring how formal and informal institutions shape and constrain the choice of individual actors.

There are, of course, some critics who question the empirical fruitfulness of this approach.

1.2 Limits of theory

Kenneth A. Shepsle argues: ‘Self-conscious and self-imposed limits are an inherent part of the program so that conclusions can be stated in the confidence that they can be traced back to their progenitors’.²² The criticism applied to the RCI can be divided into two main parts. The first one derives from inside the institutional theoretical framework, which consists of mainly historical and sociological institutionalisms; this we will call the internal critiques. In this case, the main assumptions of the theory have been accepted, but the question of ‘rational choice’ will be discussed. The second part of the critique is the one that is focused outside both institutionalism and rational choice approaches and will be called external critiques. Constructivism as the second-order theory tends to be the most significant opponent of rational choice approaches. This approach doubts not only some aspects of the Rational Choice but actually identifies the weaknesses in the approach as whole.

Starting with the internal critiques, the most discussed one is related to the rationality. Scholars argue that the assumption that actors are behaving rationally is too unrealistic, because it is costly on the one hand, and is constrained by cognitive limitations on the other.²³ Moreover, this approach is often highly functionalist, which means that it gives quite questionable explanations on the origins of the institutions, mostly in terms of the effects that follow their foundation. In this way the persistence of an institution can be explained, though it should not be confused with the origins, because it is hard to deduce the origins from the consequences.²⁴ What is more, this theory is largely intentionalist, which is to say that it assumes that the process of institutional creation is under the control of actors who have well defined intentions and establish institutions in order to achieve their goals. This assumption is highly criticised as being heroic, talking about the persistence of historical actors and their ability to control the course of events.²⁵ These considerations suggest that even though Rational Choice Institutionalism has big potential in explaining the relations between actors and

²²Shepsle, P. 35

²³A. Lupia, and M. McCubbins, *The Democratic Dilemma*. New York: Cambridge University Press, 1998, P. 1-10

²⁴P. Hall, R. C. R. Taylor, Political Science and the Three New Institutionalism, *Political Studies*, Vol. 44 (5) 1996 P. 963

²⁵Ibid. P. 937

institutions, as well as why institutions still maintain their explanation of institutional genesis, it applies effectively only in a limited number of settings.²⁶ The way out of this situation, as Hall argues would be that ‘a better understanding acquaintance with other schools (mostly sociological and historical institutionalisms) would lead the partisans of each toward more sophisticated appreciation for the underlying issues to be resolved within their own paradigm’.²⁷ This means that by looking at how other paradigms are dealing with similar issues RCI could try to fix its inability to explain the origins of the institutions and strengthen their assumption about the rationality of the actors.

When it comes to external critiques of Rational Choice approaches the main opponent here appears to be constructivism. In the field of European Union studies the debate between these theories replaced the traditional debates between neofunctionalism and intergovernmentalism. There are two main issues that constructivist see in the way that rational choice is operating: endogenous preference formation and change.

By endogenous preference formation in the context of constructivism, it is understood that RC theorists tend to simplify assumptions about actors’ preferences. The actors are made exogenous to the theory, thus making no effort to explain them or include them in the theory as a variable²⁸. It seems that rational choice denies the identity and socialization of the agents, the factor that might have the critical importance to explain the formation and the processes that they are researching in general. This would be the main concern of constructivists, seeing as they put identity and interest as the base of their studies.

The second issue according to constructivism is the concept of change in rational choice. Some constructivists argue that RC is putting the main theoretical emphasis on stability and rather ignoring the possibility –or necessity- of change. It seems, specifically in the field of EU studies that even the best rational choice work shares the tendency to either neglect the issue of change or to attribute change exogenous shocks.²⁹

²⁶Hall, P. 20

²⁷Ibid., P. 22

²⁸J. Fearon, A. Wendt, Rationalism v. Constructivism: A Sceptical View, *Handbook of International Relations*, SAGE Publications, 2002, P. 60

²⁹Pollack, 2006, P. 48

However, despite the obvious disagreements that both these theories face some authors suggest that we look at these two approaches pragmatically as analytical tool-kits, as somewhat different approaches that bring different aspects of social life into focus.³⁰ The debate between RC and constructivism can be beneficial to both theories; taking into account what either side says we can improve and refine our research.

Obvious limitations were discussed in the chapter the relevance of RCI in the study of European Union affairs is undeniable. In some case given critique can be accepted and used as an important tool to improve the existing research base, mostly in the case of Constructivist criticism, for example in competitive testing, where two theories are pitted against each other in explaining a single event³¹. On the other hand while we do find some evidence of elaborate models subjected to cursory testing (or no testing at all), the broader picture is one in which scholars draw on rational choice theories to generate testable hypotheses about concrete political outcomes across a range of subject areas.³² As M. Pollack argues: ‘empirical record of these theories was positive and progressive even in the areas where it was considered to be outside the domain of applicability of the RCI’.³³ What is more RCI leads to the adoptable research model, which will be discussed in the next chapter.

³⁰Fearon, Wendt, P. 53

³¹Pollack, 2006, P. 45

³²Ibid., P. 47

³³Ibid. P. 50

1.3 Rational Choice Institutionalism in European Union Studies

It has been argued recently that the literature on EU politics and policy making is increasingly turning from specialized theories of integration, parochial applications of IR or comparative tools in favour of more generic (and broadly applicable) forms of institutionalism. Before this the main focus in European Union studies had been paid to the neofunctionalist-intergovernmentalist debate, concentrating on the importance of the different actors (national state and supranational institutions). The second order questions were left unanalysed and the basic assumptions of these theories, such as the relations between the agent and the structure, the logic of human behaviour and etc. had been left undefined. Consequently, the theories of New Institutionalism and in particular the Rational Choice were developed to fill in this gap.

Rational Choice Institutionalism has spread rapidly to different fields of EU politics and it is no longer limited to the study of formal EU institutions. M. Pollack identifies five areas of European Union politics where RCI was applied as a theoretical approach and gave significant results. According to him legislative politics is the furthest developed strand of rational choice theory and its analysis is focused on three main questions: legislative politics within the European Parliament; the voting power of various states in the Council of Ministers; and the respective powers of these two bodies in the EU legislative process.³⁴ Furthermore, rational choice theories have been applied recently also in the studies of Europeanization, where RC introduces a mechanism which emphasizes the logic of consequences³⁵. In the research related to public opinion on European integration the foundation of the research was investigated based on the calculation of tangible economic benefits from integration.³⁶

However, the most relevant developments for this study are related to the research of EU executive politics. These studies focus on a principal-agent theoretical model with the aim of pursuing two main questions. Firstly, the analysis of what could be the reasons for the principals (in this case member states) to delegate their powers to agents

³⁴ Pollack, 2006 P. 37

³⁵ See more: T. A. Börzeland , T. Risse, When Europe Hits Home: Europeanization and Domestic Change, *European Integration online Papers (EIoP)* Vol. 4, 2000<<http://eiop.or.at/eiop/texte/2000-015a.htm>>

³⁶ L. Lindberg, S. Scheingold, *Europe's Would-Be Polity. Patterns of Change in the European Community*, Engelwood Cliffs: Prentice Hall, 1970, P. 120

(supranational bodies), and secondly, looking if the agent is fulfilling the task it is given and is not diverging from the preferences of the principal. As already said in the introduction this research will try to look at the changing dynamics of EU energy policy and see whether the European Union institutions are acting like agents or if, on the contrary, they have the power to change the policy lines and reverse the principal-agent relations.

In general the principal-agent model has been increasingly applied in the study of the European Union³⁷ because this model holds significant promise for understanding the complex relationships and interactions that characterise the Union. It has the advantage over traditional theories of integration, as it has greater institutional sensitivity.³⁸ This growing popularity is directly correlated with the rise of Rational Choice Institutionalism, which makes the most sophisticated use of principal-agent model in the research field of European Union, especially in analysing the conditions under which 'supranational institutions will be delegated authority and will enjoy autonomy from and exert influence on the member governments of the Community'.³⁹ The principal-agent model according the RCI assumption will be explained later in this chapter. First of all a more detailed description of this model is required.

The principal-agent model originated from the new economics of organization approach. It is used to examine the relations inside the firm. Put simply, agency relations are taking place when one party, the principal, enters the contractual agreement with the second, the agent, and delegates to the latter responsibility for carrying out a function or set of tasks on the principal's behalf.⁴⁰ Looking further than economic approaches, the principal-agent model can be explained as delegated responsibility from one individual or organization to another in order to minimize the transaction costs and reach the goals that would be costly or ineffective to do themselves. In the context of European Union studies, the role of principal is given to the member states, while EU institutions are perceived as the agent. This model is inspired by the rational choice

³⁷See for example: F. Franchino, 'Delegation and constraints in the national execution of the EC policies', *West European Politics* 24(4)2001, P. 169–92.; M. Pollack, 'Delegation, agency and agenda setting in the European Community', *International Organization* 51(1), 1997, P. 99–134.

³⁸H. Kassim, A. Menon, 'The principal – agent approach and the study of the European Union: promise unfulfilled?', *Journal of European Public Policy* 10:1, 2003, P.121–139

³⁹Pollack, 1997, P.100

⁴⁰Kassim, P. 122

approaches and it helps us understand why member states give some of their powers to supranational institutions. In the case of this study Lithuania is giving up their freedom to operate in the sphere of energy policy, delegating its functions in this area to the European Union institutions.

A number of scholars have examined the reasons why states transfer their powers to the supranational bodies. The most popular explanation is the intention to minimize transaction costs. However, there are few other opinions about the motivations and the reasons that make the delegation of powers worthwhile:

- Supranational agents may solve problems resulting from incomplete information by providing decision-makers with the technical information they need, in particular when complex issues rise.⁴¹
- The creditability of the commitments adopted at the supranational level is ensured by monitoring the states' compliance with joint decisions. In this case the monitoring is done to overcome the problem of collective action where actors anticipate benefits from long term co-operation.⁴²
- Delegation gives an opportunity to displace responsibility for unpopular decisions.⁴³
- To help resolving of the problem of instability in policy-making. Giving the agenda setting powers to the agent prevents possible turbulences in the majoritarian decision making.⁴⁴

The difficulties that rise inside the principal-agent model are related to the agents' effectiveness in pursuing the goal that was it given. The principal is not protected from the agent exercising their own agenda. This situation might occur because of the asymmetric distribution of information that favours the agent. This advantage can allow the agent to engage in opportunistic behaviours that may be difficult for the principal to detect.⁴⁵ The fear that the principal may have here is that agent could become a rival in the contest of political leadership. In the case of European

⁴¹R. Dehousse, Delegation of Powers in the European Union: the need for a multi- principals model, *West European Politics* 31/4, 2006, P. 789-805

⁴²R. Axelrod, *The Evolution of Cooperation*, New York: Basic Books, 1984, P.2

⁴³D. Epstein, S. O'Halloran, *Delegating Powers*, Cambridge: Cambridge University Press, 1999, P. 14-29

⁴⁴Pollack, 1997, P. 101

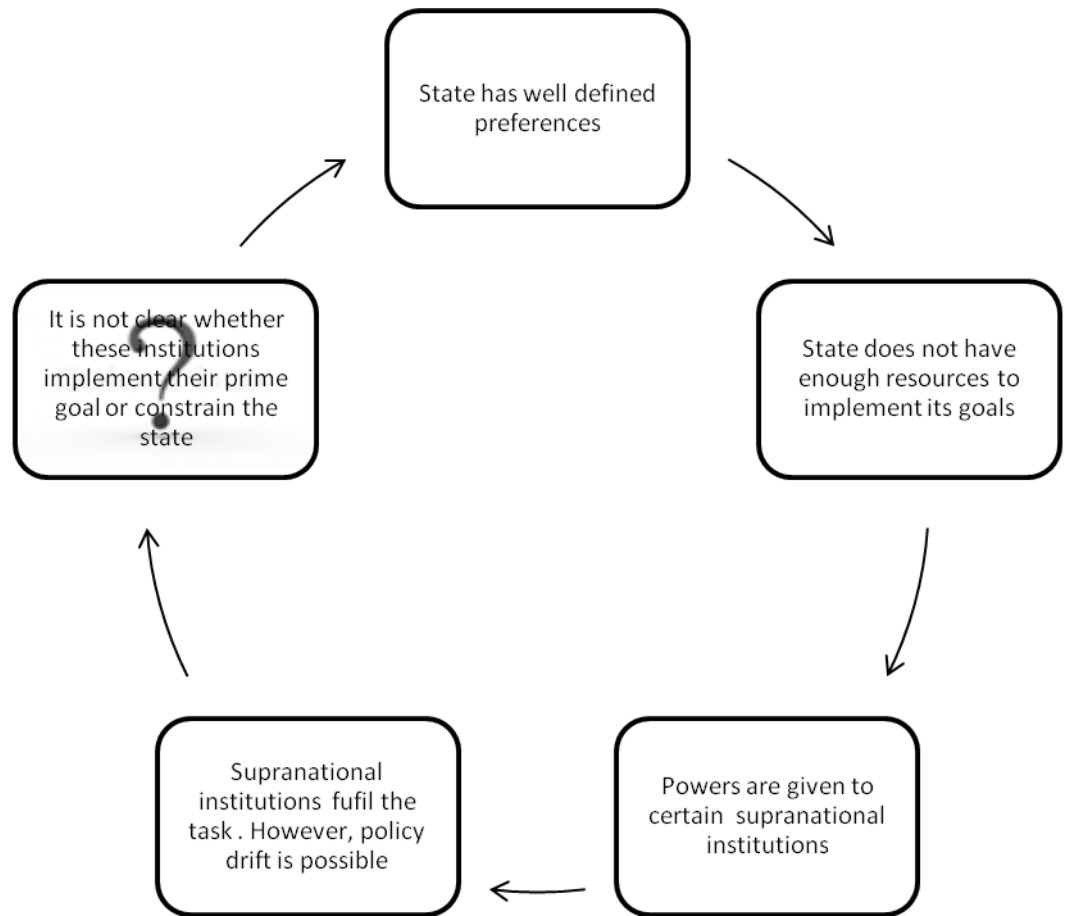
⁴⁵Kassim, P.122

Union the delegation of the powers of one member state to the supranational bodies might result in the loss of powers in favour of the agent or other member states which have more power on the EU institutions. This behaviour in principal-agent literature is described as ‘agency drift’, when agents might pursue the political agenda that differs from that of the principal. What is more, a situation may arise where the agencies are somehow captured by one of the principal’s institutional rivals in the leadership contest and could face the possibility of having its preferences significantly decreased.⁴⁶

The combination of the aforementioned RCI assumptions and the basic characteristics of Principal – Agent model are demonstrated in the Scheme 1. This scheme shows the relations that might be established between the ES member state and its institutions. In the particular case of Lithuania, the country has well established preferences to increase their energy security levels. However, because of its small size, special geographical location and political reasons it cannot by itself implement these goals. International support is required, which is why from the very beginning of its membership Lithuania was actively participating in creating common energy policy and uploading their national preferences to the EU. Giving more powers to the supranational bodies eventually means losing the freedom to manoeuvre.

However, Lithuania is willing to go further: the question here is whether the EU as an agent is fulfilling expected goals. It could be that these institutions are either pursuing their own agenda or acting according to the will of other more influential member states. The question is whether Lithuania should still continue its active lobbying in the field of EU common energy policy or should try to find other ways to ensure its energy security. These assumptions led to the main question raised in the introduction of this work. As it was mentioned in the introduction, this approach is dealing with the relationship dynamics between the member state and EU institutions, which has the key role in this research.

⁴⁶Dehousse, P. 795



Scheme No. 1 designed by the author using main assumptions of RCI and characteristics of principal-agent model.

Thus there is strong argumentation of why Rational Choice Institutionalism is the most acceptable theoretical approach to explain the question that is tackled in this paper. As it help to build a background for empirical part of the thesis as well as leads to the choosing particular model for the purpose of this paper. In order to see if European Union is implementing Lithuania's preferences there is a need to have clear indicators for evaluation. Traffic Light Model shows the risks that are threatening Lithuania's energy security. Analysing EU energy policies after the treaty of Lisbon influence on minimizing these risks would allow seeing if EU is acting as an agent or creating its own agenda.

2. Traffic Light Model: The way to indicate Lithuania's energy security risks

From the very beginning of its membership in EU Lithuania has shown a strong interest in developing a Common European Energy policy. Lithuania perceives EU energy policy as the key instrument for increasing its energy security and consequently it is interested in adopting EU energy policy according to its priorities,⁴⁷ a fact which is quite obvious when looking into the priorities of Lithuania's Presidency.⁴⁸ Energy policy is the top priority for those six months and two main goals were established: 1) the creation of an internal energy market with sufficient infrastructure to synchronize with the European networks, and 2) the strengthening of the external dimension of energy policy.⁴⁹ The implementation of these goals should lead to strengthening energy market from the inside and help to avoid energy island in Europe, as well as, to enhance the external energy policy and to have it coordinate in all levels. Taking into account all the priorities that Lithuania has been set it can be argued that this policy field perfectly fits the principal-agent model based on the assumptions of Rational Choice Institutionalism, which mean that Union's energy policies can be analysed in the framework of RCI.

Energy security is Lithuania's well defined goal and it perceives EU policies as a way to ensure it. The task here is to see whether giving power to the EU pays back and whether there actually is a substantial effect on Lithuania's energy security. To get the necessary results, a suitable methodology should be created and proper indicators for the evaluation need to be determined. It seems that the Traffic Light Model suits the aim of this paper, but before discussing it in more detail the concept of energy security risk should be explained, as this concept is essential in the research model. As all definitions in political science, the definition of "risk" is complex and is a source of different discussions. Simply put, it can be characterised as "the chance of injury, damage, or loss." However, according to Paul Slovic, this definition carries the assumption that the risk can be objectively quantified by risk assessment, which is misleading because risk

⁴⁷Vaičiūnas, P.119

⁴⁸Lithuania will held presidency of Council of European Union in 2012 II half.

⁴⁹Lithuania's EU Council Presidency priorities, Approved by Lithuanian Parliament in February 2011, <http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=410980&p_query=&p_tr2=2 >

itself is inherently subjective.⁵⁰ That is why the concept of risk in this paper is defined as the possible threat to the society in the minds of the people, not arguing whether it actually exists or not.

The chosen model for this research will use the aforementioned concept of risk. This model was created originally to identify the most relevant short and long-term energy security risks in the Baltic States and to introduce indicators for damage assessment and the probability of occurrence. This model, however, can also serve as a tool to study the effectiveness of the policy itself. In this particular case these clearly defined factors allow us to evaluate the levels of EU energy policy implementation in Lithuania and establish conclusions on the policy's effects on Lithuania's energy security. Analysing EU policies on every identified security risk step by step will show the level on which these policies influence the occurrence of these risks and to which degree they can be considered a threat or not. In this way the evaluation of the European Union institutions as the agent fulfilling Lithuania's interest will be made. Seeing if EU is acting as an agent or the positions have been reversed, and now Lithuania has to work according to Unions preference.

As has already been mentioned in this chapter, Lithuania has strongly established its interest in securing the country's energy sector. And that is why it is advocating for more united Energy security policies in the Union, in this way losing the possibility to act independently in this sector. This analysis should demonstrate whether having these high hopes in the EU is being realistic or whether they should be giving more attention to other possible ways to ensure that security.

Even though the Traffic Light Model was created for all Baltic States it can also be applied only to Lithuania. Being a part of this region, Lithuania is probably the most sensitive to energy security risks, differing from Latvia,⁵¹ which has better infrastructure, and Estonia, which enjoys its own energy resources. *Table 1* shows all the short long-term energy security risks that Lithuania can face. These risks are divided according to the damage they can cause and the likelihood of them happening. In order

⁵⁰P. Slovic, Trust, emotion, sex, politics and science: surveying the risk-assessment battle field, *Risk analysis* Vol. 19, 1999 P. 690

⁵¹For example Lithuania is the most dependent on electricity import. In 2011 Lithuania was importing 8.71 kWh, while Latvia – 4.01 kWh, Estonia – 1.69 kWh

to proceed with the empirical part of the paper, every one of those security risks should be discussed first in more detail so that the changes taken place after the Lisbon treaty can be identified. It is also important to note that in the course of characterizing energy security risks of Baltic States, evidence on materialisation of risks into concrete damages were collected and analysed, and experts were asked to give their evaluation on these issues⁵². The in- depth explanation of all energy security risk groups now will be provided.

As is shown in *Table 1*, the third part of the model, in green, demonstrates the “**acceptable**” risks. According to the International Risk Governance Council “acceptable” refers to “an activity where the remaining risks are so low that additional efforts for risk reduction are not seen as necessary”.⁵³ However, that does not necessarily mean that this issue should be abandoned and not tackled. It can be agreed that these issues concerning the energy sector do not threaten Lithuania’s energy or national security at alarming levels but, on the other hand, *even smaller deficiencies in energy infrastructure* might cause trouble in the state and prevent it from functioning normally, sooner or later. This risk is being defined as acceptable because it is acknowledged in Lithuania that energy infrastructure in country is in a good condition and it has overcapacity, which is why it is most unlikely to cause the greatest damage to energy security. On the other hand, few examples of insufficiency of infrastructure can be given.

Lithuania has a history of events that resulted in disruptions of energy supply because of technical reasons. For example in 2005 after the effects of hurricane Erwin more than 230 000 people were left without electricity and it took more than 24 hours to re-establish the energy supply to all consumers. Similar situations, albeit in smaller ratios, continue to this day. It has been predicted that if conditions do not change the frequency of similar problems will increase in the future. Moreover, this situation not only causes dissatisfaction in society, but it is also financial issue, and this would not be such a big problem if the electricity sector would be properly maintained

⁵²Molis, P.64

⁵³International Risk Governance Council, White paper on Risk Governance, 2006 <http://irgc.org/wp-content/uploads/2012/04/IRGC_WP_No_1_Risk_Governance_reprinted_version_3.pdf>

and managed. Natural disasters pose a risk to newly build or planned info structures and power transmission lines will suffer increased damage if not renovated.⁵⁴

Risks that are marked with the yellow colour are defined as “**tolerable**”, which describes an activity that is seen as worth pursuing yet requiring additional efforts for risk reduction within reasonable limits.⁵⁵ This means that these risks need to be minimized, however it can be done in a longer period with rational cost-benefit analysis and reasonable amount of resources. In this model two such risks were presented.

The first one risk factor placed under tolerable risks is the low level of innovations in the energy sector. The problems are basically related to the use of renewable energy in the state. Looking at the statistics Lithuania is at a higher level than the EU average, though falling behind its neighbours Latvians and Estonians. What is more, according to Lithuania's National Energy Strategy⁵⁶ by the year 2020 the share of renewable energy in the total energy consumption should be more than 20 per cent. But it seems that Lithuania is behind the planned schedule. There are few reasons why the acceptance of new innovations in the energy sector does not generate the expected support. Firstly, the lack of finances to support necessary infrastructure can be observed.

⁵⁴ Molis, P. 69

⁵⁵ White paper on Risk Governance, see reference no. 5

⁵⁶ Strategy for Energy of Republic of Lithuania, approved by Lithuanian Parliament in January 2007, <http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=291371>

Table1. Lithuanian energy security risks

Energy security risk	Situation in Lithuania	Questions pertinent to the analysis
Intolerable Risks		
Dependence on a single supplier	Alternative supply routes are practically impossible to establish due to the absence of energy towards Northern or Western Europe.	<i>What are the EU policies for the further integration of all member states into the energy system? How does it work in practice?</i>
Lack of transparency, experience and competence	Lack of professionals skilled in political and technical energy security aspects as well as there being a shortage of objective and unbiased research in this area.	<i>In which ways could EU increase the levels of competence and expertise in Lithuania? Are there any measures being taken to address this issue?</i>
Tolerable Risks		
Lukewarm attitude towards innovations	Insufficient application of energy innovations can cause deficient increase of renewable in energy consumption.	<i>How do EU policies towards more renewable energy consumption work in Lithuania?</i>
Vertical integration in energy sector	Few energy companies have exclusive rights to import resources, control the distribution networks and supply consumers with gas, oil and electricity.	<i>What are the steps that the EU took to avoid this situation and has it been effective in practice?</i>
Acceptable Risks		
Vulnerable energy infrastructure	Imperfect energy infrastructure causing disruptions in power supply (usually caused by natural disasters).	<i>Does Lithuania get any support from the EU funds to improve its infrastructure? Are there any other means that the EU may be using?</i>

Source: A. Molis, *Building methodology, assessing the risks: the case of energy security in Baltic States*, *Baltic Journal of Economics*, Vol. 11, No. 2, 2011

Renewable energy requires big investments in infrastructure during the first years of its appliance, which makes the price of renewable energy unattractive for

consumers, who prefer the cheaper traditional energy sources⁵⁷. Secondly, renewable energy is a comparatively new phenomenon in Lithuania, which is why insufficient information is provided so that consumers could gain knowledge about it. Consumers do not have enough information about possible energy options. Moreover, the companies that usually provide renewable energy are small and do not have sufficient resources to negotiate with most of the consumers, which causes them to be unable to compete with big energy providers. Transaction costs are important here as well. In general, the situation in Lithuania is not alarming. On the other hand, there are spheres that require improvement.

The last tolerable risk in Lithuania's energy security is ***vertical integration of energy sector***, which means that very few companies control the import, distribution and supply of energy resources. For example in the gas sector "Gazprom" is the only gas supplier to Lithuania. What is more, natural gas is only transported via the Minsk-Vilnius-Kaliningrad pipeline, which is also controlled by "Gazprom". Finally, the same company is one of the biggest stockholders of the main Lithuanian gas operator "Lietuvos dujos".⁵⁸ Lithuania does not have any gas storage facilities or the possibility to distribute large amounts of liquid natural gas. Connection with Latvia (Kirmenai) is not a solution here, as it is only used as an emergency in case of disruption of gas supplies and its capacity to distribute large amount of the natural gas is rather low. All these factors result in the uncontrolled price rises for gas⁵⁹. It is argued that Lithuania and the other Baltic states are not paying the market prices, but political prices for the gas (for example, in 2010 Lithuania was paying 356 USA dollars for each 1000 square meters of gas, while Germany only 271 dollars⁶⁰). The comparison of Gazprom prices is provided in *Table 2*.

⁵⁷D.Štremeikienė, Lietuvos energetikos pletros prioritetai ir subalansuotumo rodikliai, *Environmental research, engineering and management*, 2003.No.1(23), P.31

⁵⁸ The shareholders are: OAO Gazprom 37,1 %, E.ON Ruhrgas International GmbH 38,9 %, Ministry of Energy of Republic of Lithuania 17,7, small shareholders 6,3 %

⁵⁹T. Janeliūnas, A. Molis, Energy Security of Lithuania: Challenges and Perspectives, *Lithuanian Political Science Year Book 2005*, P. 209

⁶⁰ Interview of former LR Minister of Energy A. Semiokas, 2010,
<http://verslas.delfi.lt/energetika/asekmokas-lietuva-uz-dujas-moka-mazdaug-trecdaliu-daugiau-nei-vokietija.d?id=36502729>

Table 2. Gazprom gas prices in some of the EU member states for 2010-2011

Country	Price for one thousand cubic meters (\$)
Germany	271
Netherlands	302
Austria	304
Romania	304
France	306
Estonia	309
Latvia	310
Italy	331
Hungary	348
Lithuania	356

Sources: Ministry of Energy of Republic of Lithuania, Russian news agency “Interfax”, Ukrainian portal from-ua.com

There are no connections with the alternative European networks to get supply from other resources in the case of a crisis. “Gazprom” owning the “Lietuvos dujos” does not allow the Lithuanian government to implement policies that would be against the Russian company’s interests. As Lithuania does not have the possibility to receive gas from other sources or contain its own gas supply, it makes the country extremely vulnerable to the gas supply cuts.

The top part of the table consist of the indicators that can cause the greatest damaged to Lithuanian energy security. “**Intolerable**” risks define situations where the risk source should be abandoned or replaced or, in cases where this is not possible, the vulnerabilities need to be reduced or exposure should be restricted.⁶¹ This group of risk causes the greatest danger to the state energy or even national security. In Lithuania the most alarming examples of intolerable risk situations seem to be the ***dependence on a single supplier and imperfect decision making process***. The first one is related to the human factor and the current political situation, which can be used as a political tool in international matters. Lithuania does not have any other alternative suppliers and it finds itself in a situation where the supply of natural gas, for example, may be limited or stopped without any notification or negotiation. In general, Lithuania’s dependence on Russia was acute since the restoration of independence, and it got more pronounced when the Russian government started to use its energy

⁶¹White paper on Risk Governance, see reference no. 5

companies as a foreign policy tool. Lithuanians felt this in 2006 when the government controlled Russian company “Rosneft” was prevented of buying the Mazeikiai oil refinery, which was then sold to the Polish firm “PKN Orlen”. After an agreement was reached, the Russian state-owned oil Transport Company “Transneft” announced that part of the “Druzhba” pipeline that supports Mazeikiai was temporarily shutting down for repairs following the oil leak. Later the pipeline was not reopened. Mazeikiai oil refinery was forced to receive oil from Butinge terminal which is more expensive than getting through the pipes. Critics argued that Russia was manipulating energy supplies once again to punish Lithuania for seeking to diversify ownership in its energy sector.⁶² This energy security risk might have caused severe damage to Lithuanian energy security and must be taken into account as a very serious issue.

The second energy security risk that is marked red in this traffic light model is related to the *lack of transparency, experience and competence in the decision making* in this country. This is a very important area where the government fails to ensure the implementation of projects contributing to the proper maintenance of functioning infrastructure installations, the development of alternative resources or energy efficiency projects.⁶³ Very often it is a result of high level of corruption. The energy sector, with its complex mix of public and private actors and often enshrined centres of monopoly power, is prone to corruption. With considerable monopoly rents at stake (from meter reading, to project implementation) and, in many countries, a long history of weak monitoring, low transparency and inadequate civil service pay, opportunities and incentives for illicit activities gain rife.⁶⁴ This leads to public sectors inability to implement energy projects in this way preventing possible increase in states energy security. Lithuania “satisfies” all the criteria listed above and, having been part of the Soviet Union, where corruption was perceived as a natural form of behaviour, it now finds it difficult to relinquish old habits. The extent of the problem and its relevance is shown by the fact that the top priority in the fight against corruption in the

⁶²S. Woehrel, Russian Energy Policy Toward Neighbouring Countries, *Congressional Research Service*, 2010 <<http://www.dtic.mil/dtic/tr/fulltext/u2/a517758.pdf>>

⁶³Molis, P.71

⁶⁴L. Lovei, A. McKechnie, The cost of Corruption for the poor – the Energy Sector, *Public Policy for the Private Sector*, No. 207, 2000
<<https://openknowledge.worldbank.org/bitstream/handle/10986/11437/268330VP0note0no102070lovei.pdf?sequence=1>>

country is the energy sector, as it was announced by the Special Investigation Service of Republic of Lithuania.

Even though corruption in Lithuania was steadily decreasing after the restoration of independence and the levels of corruption were lower than in the health care sector or in the system of interior, it still exists and prevents any significant changes or progress to take place. The other problem is that the public sector tends to neglect the opinion of experts in the field of energy policy. In other words, decisions in this policy field are mostly political and do not take into account the opinion of the experts in this field. Too often not a single representative of a think tank, academic or research institutions, is able to assess the threats or the risks to the energy security formulated by politicians. The solutions offered by them from the expert point of view are included in the task force's drafting of national energy security strategies, with other long term effects.⁶⁵ This usually results in unreasonable decisions that only end up taking into account the current situation, lacking a future long-term perspective. Moreover, this leads to possible corruption in the public service, when strange decisions are not based on any scientific grounds. This causes mistrust and dissatisfaction in society, which lead to the opposition to the energy security projects such as building of a new nuclear power plant. High levels of corruption and lack of competence very often might be the main reasons of Lithuania's inability to ensure its own energy security and eliminate risks. Taking into account all the facts mentioned above the research model for this paper is established.

The Traffic Light Model defines the energy security risks in Lithuania. Changes in the factors that have been explained above will facilitate the evaluation of the effect of Common EU energy policy after Lisbon treaty on Lithuania's energy security and will demonstrate whether the EU's contribution in this area fulfils Lithuania's main objectives. Step by step all these risks will be discussed in the next chapters trying to see how they are tackled by post- Lisbon EU policies i.e. by the decisions of the EU institutions, the expected result is to see if they DO or NOT have influence on each risk and eventually on all Lithuania's energy security. But before that

⁶⁵Molis, P.72

some general overview of EU energy policies and Lisbon treaty reforms will be done in order to have better understanding of the processes that are taking place in EU.

2.1 Limitations of the Traffic Light Model

Even though this model has been created particularly for the Baltic States and, with a few corrections, fits the Lithuanian energy security risk classification, there are few shortcomings that have to be taken into account while using it in this research. The Traffic Light Model is focused on political questions and leaves economic issues aside. In this way there is the probability that it might not consider hidden risks and costs. For example, business and price risks in the gas market, as it can be exposed to serious volatilities related to price hikes. Patrick Heather, for instance, argues that it is most likely to be in the gas sector where there will be limited numbers of very liquid and traded hubs, used for risk management purposes and used to set gas prices in their region; and there will be the national hubs, with a tight price correlation to the regional hubs. As he states, this shows that some hubs are being used for price risk management whereas others are being used simply to balance shippers' portfolios⁶⁶. This shows that even building new infrastructure in the energy sector will not necessarily lead to the creation of a market and subsequently increase state energy security. In relation to this, there could also be a high possibility of price instability in the local level hubs, in this way causing turbulence in the national energy market and overall in the state financial system. On the other hand, the author of this model has clearly stated that he was not aiming to explain all the methodological aspects of the energy security evaluation. The Traffic Light Model includes neither econometric modelling nor precise calculations or detailed descriptions and the further research should take this into account. However, the conclusions on the relevant risks, their weight, probability of occurrence and possible damage are based on expert opinions in the region, that is to say, based on their insight expressed during the structured interviews⁶⁷. That is why the model should be accepted as undoubtedly having a certain level of reliability.

⁶⁶P. Heather, Continental European Gas Hubs: Are they fit the purpose?, *The Oxford institute for energy studies*, 2012, P. 63

⁶⁷Molis, P.61

3. EU Common Energy Policy and innovations brought by the Treaty of Lisbon

3.1 Development of Energy policies before the Treaty of Lisbon

In order to see how the EU's common energy policy after the treaty of Lisbon has influenced Lithuania's energy security it is important to understand how this policy has been working all over the Union and which were the most important innovations that were included in the treaty. This information will give us a better understanding not only of the main processes that are taking place at the moment but also of which historical events led to the EU's current situation.

As was mentioned before in this paper, Energy policy is quite a new field in the EU framework. Before the Lisbon treaty came into effect in 2009, this policy was usually an integral part of other EU policies, such as environment or trans-European networks. Here we can see that there has been a definite change in the EU's focus on energy policy, considering that in its early stages it used to deal mostly with issues related to energy policy. The treaty establishing the Coal and Steel Community in 1951 aimed to boost economic development and start a new age of co-operation. It should be noted, however, that the principles of the treaty were a sign of times when Europe had sufficient energy resources – mostly in the form of gas and coal – and did not have to deal with the dependence of third countries external to the treaty.⁶⁸ Later the situation drastically changed as the necessity of energy resources increased significantly and the usage of coal was decreased because of its damaging effect to environment. This is when the policies related to the energy sector established in this treaty started to lose relevance and bigger commitments were deemed necessary.

The treaties that created The European Economic Community and the European Atomic Energy Community (Euratom) both came into existence in 1957. The first one was established as a means to guarantee peace, but no reference to energy security policies was mentioned, as it did not define any policies towards a more rational use of resources or give any instruction to the Community institutions on how to work on this matter. The second one, in turn, can be described as the main obstacle

⁶⁸S. Haghighi, Energy security. The external legal relations of the European Union with major oil- and gas-supplying countries, *Modern Studies in European Law*, no. 16, 2007 P. 66

for the future development of EU energy policies. The reason for this perspective is that nuclear energy, while being perceived as an energy resource, was supposed to ensure the necessary level of security in Europe even though it would require involvement from third countries.⁶⁹ “The aim of the Treaty was to create the conditions necessary to develop a powerful nuclear industry, which would provide extensive energy resources and would lead to the prosperity of the people.”⁷⁰ However, the interesting fact about this treaty is that the task of securing materials for the production of nuclear energy was given to the Community’s institutions, which would mean that member states could only receive materials from the third countries with the approval of the Commission. No stipulation was ever included in the treaty to provide EU institutions with the task of supplying oil and gas from third countries.⁷¹ This clearly shows that the aforementioned energy source was to become the main energy type in Europe. The plan, however, had not been laid out effectively. The emphasis on this type of energy gradually shifted due to “the appearance of potential dangers in its production and the use of negative effects that any accident could have, especially to environment”.⁷² As already mentioned in the introduction, the following treaties did not refer to energy issues in their text, but they were given some attention in sections concerning other EU policy fields.

Looking at the history of the development of Europe’s energy resources we can see that coal lost its importance very fast, which meant that the Coal and Steel Community lost its main reason for functioning. Later the same happened to the Euratom, as nuclear energy did not deliver the results that had been expected. Europe entered a new period where oil and gas became the main energy resources, which also meant increased dependence on third countries and a weakening of EU energy security. The Community started losing competence in the generation of energetic resources which had, until then, reached considerable development, especially in coal or nuclear energy. This happened not because of lack of will from Community’s part, but because

⁶⁹ Haghighi, P.67

⁷⁰ See the Preamble of the Euroatom Treaty <<http://eulex.europa.eu/en/treaties/dat/12006A/12006A.htm>>

⁷¹ Haghighi, P. 68

⁷² Ibid., P.53

initiatives progressed very slowly in trying to agree on common interests for all member states.⁷³

Some attempts, however, were made. For example, the 1996 Electricity and the 1998 Gas Directives known as the ‘first package’, which unfortunately did not lead to any tangible results. There was no true liberalisation in the sector, which was characterized by vertically integrated companies dominating national electricity production and/or gas imports, often with *de jure* or *de facto* monopolies over delivery infrastructure⁷⁴. The second package in 2003, which aimed to have fully opened Gas and Electricity markets by 2004 and 2007 respectively, also failed to reach the desired outcome. Therefore, the Commission had to admit finally that the objectives of creating real choice for the consumer and establishing fair and free cross-border trade were not achieved.⁷⁵ This situation led to the negotiation and adoption of a third package in 2009. This package will be discussed in more detail in later chapters as its adoption is already included in post-Lisbon period. As we can see, overall, market liberalization and the building of common Energy Policy with the objective of strengthening EU institutions were not very successful before the Treaty of Lisbon came into force.

Furthermore, the issue of energy had been avoided during the establishment of the EU’s Security Strategy. The strategy adopted in 2003 did not include energy security in the threat assessment and was mainly dominated by the aftermath of 9/11⁷⁶. However, much has changed since then. During the informal European Council of October 2005 that took place in Hampton Court, various EU leaders agreed that the Union needed a common Energy Policy.⁷⁷ An increase of new initiatives could be observed since that meeting and energy issues became a part of the agenda in different meetings and discussions. The Commission published the Green Paper in March of 2006, a document that dealt with numerous policies. The October 2006 Communication concerned ‘External energy relations – from Principles to

⁷³European Commission, Memorandum *First Guidelines for the Community Energy Policy*, 18 December 1968 COM (68) 1040 final

⁷⁴P. Eikeland, EU Internal Energy Market Policy: Achievements and Hurdles, in V. Birchfield, *Towards Common European Union Energy Policy* (2011), Macmillan, P. 14

⁷⁵European Commission, Communication *An Energy Policy for Europe*, Brussels 10 January 2007, COM(2007) 1 final

⁷⁶B. Van Vooren, Europe Unplugged. Progress, potential and limitations EU external energy policy three years post- Lisbon, *SIEPS*, 2012:5, P.23

⁷⁷*Ibid.* P. 23

Actions,’ while the January 2007 Communication produced ‘An Energy Policy for Europe, the 2007-2009 Action Plan of the European Council and the second Strategic Energy Review of November 2008.’ The Lisbon Treaty then came into force in 2009.

In general the growing interest in energy issues has been observed particularly in the period of 2005-2006, which can be considered the point when the consolidation of common EU energy policy has its roots. This timing was mainly influenced by the enlargement in 2004 and by the supply crises that took place due to the conflicts between Russia and Ukraine in 2006 and Russia and Belarus in 2007. The following chapters will discuss the main innovations brought by the Lisbon Treaty and its implementation in the EU, as this is the starting point where EU Energy policy became a part of the official EU agenda, formalised in the main document of European Union.

3.2 Innovations brought by Lisbon Treaty

Lisbon Treaty came into force in 2009. It meant to be main document establishing the work of the Union. In general it has the basis of Constitutional Treaty which did not come into force because of the unsuccessful referendum in France and Netherlands. Already then the need for more consolidation in shaping and implement energy policies was established. Article 194 TFEU in Lisbon treaty was given to the energy. For the first time in the history of EU, common EU energy policy was established in such important EU legal document. It aimed to determine the main goals for the EU energy policy. Not everyone was keen on having stronger focus on EU common Energy Policy in the treaty. The diversity of interest made the negotiation complicated. Decision was difficult to make, because of the different situation in the member states. Countries have different levels of dependence on suppliers from third countries, separate energy balance structures as well as different sizes energy companies and levels of their dominance in energy sector. One more important feature dividing states is their geopolitical location.⁷⁸ These aspects mainly led to complication formation of EU policies in the Lisbon Treaty. Member states can be divided into three main parts according to their separate opinions towards Energy policies in the treaty. This division can be seen in *Table 3*.

Table 3. Division of EU member states according to their support towards Energy Policy provision in the treaty

States that approved almost all energy policy provision in the Lisbon Treaty	States that partly approved the energy policy provisions in the Lisbon Treaty	States that opposed to almost all energy policy provisions in the Lisbon Treaty
Austria, Belgium, Bulgaria, Cyprus, Estonia, Finland, Greece, Hungary, Italy, Latvia, Luxembourg, Malta, Romania, Slovakia, Slovenia, Spain, Sweden, Denmark, Ireland, Portugal, United Kingdom	The Netherlands, Poland, The Czech Republic	Germany, France

Source: Jakštas T., *Ar Lisabonos sutartis turi įtakos Europos bendrosios energetikos politikos įgyvendinimui*, Politologija 4 (60), 2010

⁷⁸ Jakštas, P. 121

New member states like Lithuania, Latvia and Estonia as well as some old members Ireland, United Kingdom, Denmark, Sweden, and Spain strongly supported the energy policy provisions in the Lisbon Treaty and included development and consolidation of this policy into the list of priority areas.⁷⁹ Baltic States were particularly sensitive to this topic because their dependence on single supplier. It is worth noticing that even though Poland goes in to second section, but mostly because of its efforts the principle of solidarity was expanded to situations related to problems of supplying the resources. Also Polish negotiators supported double majority voting system in this way trying to secure acceptance from Germany and other states for the questions of energy security.⁸⁰ Even so, Germany and France were two countries which opposed the most to some of the provision in the treaty, this is explained by unwillingness to liberalize energy market and dissolve their energy champions. This means that the small member states might have to deal with the strong opposition from these countries in their attempts to ensure their energy security.

After this quite complicated beginning and negotiations we have energy policy brought to the whole community level. Provisions established in the Lisbon treaty can be divided in two main groups. Firstly, the normative changes when EU common Energy policy becomes an official EU policy established in the main document. Secondly, practical changes: reform of voting mechanism, established main goals in energy field and extinction of article on solidarity.

Liberalization of voting threshold from unanimity to qualified majority voting increases the efficiency of decision making. In this way conditions for faster EU energy policy integration are created.⁸¹ This innovation is also beneficial to small member states such as Lithuania, Latvia and Estonia. Now these states have more possibilities to participate in formation of energy policies and to go around domination of the big member states. Clear rules and set mechanism of responsibility gives an impulse for more cooperation and avoid free riding problem.⁸²

⁷⁹Jakštas, P. 122

⁸⁰Polish Institute of International Affairs; Institute of Public Affairs, The future of the treaty Establishing a Constitution for Europe – a strategy for Poland, Report, May 2006, P. 4

⁸¹ L. Cohen-Tanugi, *Beyond Lisbon: A European Strategy For Globalization*, Bruxelles: PIE Peter Lang, 2008, P.159

⁸²Jakštas, P. 128

Expansion of Solidarity clause to the energy security area is one more important change showing that EU has a will to overcome the problems related to energy supply. Essential innovation in new treaty is direct reference to new power of Council. Council using the solidarity clause can decide what actions should be taken, considering present economic situation, if serious problems with energy supply occur.⁸³ However, experts argue that wording used in this article is not clear. In general one of the main shortcomings of the treaty is insufficient conceptualization, which can cause problems in initiating common EU actions.⁸⁴ For example the concept of solidarity might be interpreted in many ways.

But main novelty in the Treaty of Lisbon is Title XXI, with its comprehensive Article 194 TFEU. This article established EU aims in pursuing Union's policy on energy. In the spirit of solidarity four main aims were determined: a) ensure the functioning of the energy market; b) ensure security of energy supply in the Union, c) promote energy efficiency and energy saving and the development of new and renewable forms of energy; d) promote the interconnections of energy networks.⁸⁵ These aims have more of a normative nature than real actions plan for the future development of EU. At the time of Lisbon treaty came into force it was not clear what practical influence this article will have. Even though every country would gain something if everything would be fulfilled. Others argue that competence conferred upon the Union in December 9 is not a sea-change in the substantive priorities of EU energy policy, but rather a codification of the policy process that preceded it.⁸⁶

What we can sum up here is that treaty of Lisbon brought some normative and practical changes in EU energy policy. However it was not evident how all these changes should work in practice. The Article 194 had to be loaded with some kind of content. Next part of the paper will try to see how much was in post- Lisbon period.

⁸³European Commission, The Treaty of Lisbon, *Official Journal of the European Union* 50, December 2007, P. 1-306

⁸⁴ S.Seliverstov, *Energy Security of Russia and the EU*, The institute Francais des Relations Internationales, 2009, P. 12

⁸⁵The Treaty of Lisbon

⁸⁶VanVooren, P. 31

3.3 Post-Lisbon agenda. Practical implementation of the treaty

The question after Lisbon treaty came in to force was whether it will have any practical influence to EU energy policies or it will stay just idealistic statement. Observers were missing clear strategy how to ensure energy security, liberalize market, reach diversification of supply and establish the usage of renewables.⁸⁷ The picture became even more pessimistic looking at action of different member states, they were very often contradicting to provisions in the treaties. Very often the ideas of solidarity and creation of common market is forgotten, as it happened in the case of ‘NordStream’ gas pipeline directly connecting Russia and Germany, bypassing Baltic States and Poland. Or for example the situation when during gas crisis between Russia and Ukraine leaders of the member states used their personal connections to negotiate with Kremlin⁸⁸. These examples show that states are polarized while dealing with energy security problems. That is why there was no surprise that the attitudes towards innovation were not very optimistic. However, it seems this was not the only obstacle that these provisions in the treaty faced.

“After the entry into force of the Lisbon Treaty in December 2009, the new legal basis was supposed to create the momentum for a grand launch of revamped EU energy policy. Initially this momentum was lost due to the Arab Spring and the sovereign debt crisis, which pushed energy policy down the priority list of EU leadership.”⁸⁹

In the beginning the intention was to put energy issues to the top level, November 2010 Commission introduced Communication on ‘Energy strategy for 2020’ this was followed by the European Council meeting which supposed to discuss energy issues on February 2011. Even though some decision in this field was taken, most of the discussion concerned the crises that EU and world was facing at that time.⁹⁰ The discussions then shifted to ministerial level, on February 28 2011 Energy Council adopted conclusions which endorsed the Energy 2020 program.⁹¹

⁸⁷Jakštas, P. 131

⁸⁸B. P. Doran, Collective Energy Security: A New Approach for Europe, *Journal of Energy Security*, February 2009, P. 1-6

⁸⁹Van Vooren, P. 40

⁹⁰EU Council, Conclusions, Brussels, 4 February 2011

⁹¹European Council, Conclusions, *Energy 2020: A Strategy for competitive, sustainable and secure energy*, Brussels 28 February 2011

Later that year, the same Energy Council drafted Conclusions on strengthening the external dimension of EU energy policy. Council tried to find a way for more coherent cooperation between member states and the Union.⁹² European Council adopted this Decision establishing EU- Member State relationship on 4 October 2012⁹³. As it can be observed, more active legislation process took place after Lisbon treaty came into force, even though it did not achieved as much political attention as expected. Next few paragraphs will dedicated for review of these main documents that were established in Post-Lisbon time.

In the Energy 2020 strategy Commission makes few strong claims as regards both the subsidiarity of the EU actions (Article 5.3 TEU) and the need for loyalty between the EU and its Member States (Article 4.3 TEU). It basically states that Union can more effectively defend energy security in Europe, than separate states can, and they also should overstep national interest and be more loyal for the common EU interest.⁹⁴ On subsidiarity Commission is quite ambitious: “The EU is the level at which energy policy should be developed. Decisions on energy policy taken by one Member State inevitably have an impact on other Member States” or “The time has come for energy policy to become truly more European.”⁹⁵ This strategy was one of the biggest steps in energy policy in post- Lisbon period. In the next chapters we will try to see if it has any practical influence in energy security to be precise to security of Lithuania.

One more important document was already mentioned ‘Energy Decision’, approved by European Council in October 4, 2012. There are two main objectives that this instrument can pursue, one legal and one political. The legal interest implies ensuring that the bilateral agreements of Member States do not violate the principles which are essential to the proper functioning of the internal market.⁹⁶ The political challenge is that Member States agreements substantively take into account ‘Union interest’ to ensure the security of supply for all 27 states as one and collaborate with

⁹²EU Council, Conclusions *On strengthening the external dimension of the EU energy policy*, Brussels, 24 November 2011.

⁹³The Council adopted a decision establishing a mechanism for the exchange of information between member states and the Commission on intergovernmental agreements in the field of energy

⁹⁴European Commission, *Communication Energy 2020, A strategy for competitive, sustainable and secure energy*, Brussels 28 February 2011

⁹⁵*Ibid.* p. 4

⁹⁶European Commission, *Proposal for a Decision of the European Parliament and of the Council setting up an information exchange mechanism with regard to intergovernmental agreements between Member states and third countries in the field of energy*, Brussels, 7 September 2011, COM (2011) 540 final.

Unions institutions.⁹⁷ Even though the idea behind this Decision is very significant, some limitations are set. Member States have few ways how to avoid information exchange mechanisms: by utilizing non-binding agreements, and by arguing that the agreement does not impact the internal market or EU security of supply.⁹⁸ As this decision is relatively new, its influence in our research would not be noticeable. However it should be taken into account.

Some comments of implementation of Lisbon treaty can be made in this chapter as it concerns all Union in general. For example it seems that solidarity remains weak, evidence of this is Regulation No. 994/2010/EU on the security of gas supply adopted in 2010. The aspect of solidarity had to be improved, but despite the fact that this regulation brought more harmonized and consistent implementation of measures dealing with gas supply problems, it did not have much to do with solidarity among the member states beyond what could be done on voluntary, bilateral basis.⁹⁹ However, changes have happen in the content of energy policies, some institutional innovations were brought as well.

If we would look at the institutional changes after the Lisbon treaty, new significant players appeared in the field. First of all, changes in the European Council. This institution defines interest and decisions concerning a specific country or in thematic areas such as energy.¹⁰⁰ The treaty introduces new figure in this institution – president of European Council. This person will have the driving seat and basically have the agenda setting powers. From 2009 this office is held by former Belgian Prime Minister Herman Van Rompuy. Some observer argue that he has created political momentum and added much-desired political face next to the more technocratic aspects of negotiation on energy.¹⁰¹

⁹⁷EU Council, Conclusions *Energy 2020: A Strategy for competitive, sustainable and secure energy*, Brussels 28 February 2011.

⁹⁸Van Vooren, P. 69

⁹⁹J. F. Braun, *EU energy policy under the treaty of Lisbon rules. Between new policy and business as usual*, EPIN working paper No.31, 2011, P. 2

¹⁰⁰The speech of Herman Van Rompuy (2010) on “The Challenges for Europe in a Changing World” at the College of Europe in Bruges on 25 February.

¹⁰¹Braun, P. 4

Looking at the Commission, the main novelty is new DG ENER¹⁰² which supposed to abolish problems arising from overlaps and gaps in the Commission governance of energy policies. This innovation should also improve the level of expertise in the field of energy as well as fasten the process of policy formation. It is also important to mention that external dimension of energy fall under the mandate of Energy Commissioner. On the other hand, not everything is so easy. In the EU's external representation for further cooperation with non-EU countries and regions, different format for negotiations was chosen. There is triple negotiators system: the high representative (also a new figure established in the Lisbon treaty), energy commissioner flanked by the Presidency of the Council of European Union.¹⁰³ This multiple representation in the external affairs is useful as energy is closely interconnected with other policies such as climate change and biodiversity, trade and etc. But this system might also cause some problems as it is not clear who should take the lead in energy based negotiations. No significant changes were made in the work of Council of ministers in the treaty. While European Parliament can enjoy more powers in decision making process. The introduction of Article 218(6a) TFEU on the conclusion of international agreements is however more important for enhancing the Parliament's role in energy matters.¹⁰⁴ In the agreements that are related to the ordinary legislative procedure the consent of European Parliament is now necessary. This means that in energy projects which are of European importance, such as Nabucco or Southern Corridor, no agreement can be made without permission of EP. In general the institutional changes brought by Lisbon treaty are welcomed as now Union is looking at energy matters beyond the internal market and tries to give more political profile to the external dimension. In this regard new positions of president of European Council and High Representative should play a significant role.¹⁰⁵ On the other hand, international representation in energy policy has become more complex and not necessary more effective, confusion among different veto player might turn to competition and disturb decision making in the energy field.

¹⁰² Before that there was one DG for Energy and Transport

¹⁰³ S. Andoura, L. Hnacher and M. Van de Woude, *Towards European Energy Community: A policy Proposal*, *Notre Europe Studies and Research* 76, Notre Europe, Paris, 2010, P. 76

¹⁰⁴ Braun, P. 7

¹⁰⁵ *Ibid.*, P. 8

To sum up, after Lisbon treaty came into force Commission tried to put energy policies in the top level of EU agenda, however because of turbulent situation in the world and economic crisis it had to step back. On the other hand some significant decisions were made. Institutional setting changed as well, mostly in the external energy policies. In the next chapter we will try to see how all these legal and political changes work in practice and what impact it has on states energy security, looking at the case study of Lithuania.

4. Effect of Post-Lisbon energy policies to Lithuania's energy security

This chapter will analyze the possible effect of EU common energy policy to Lithuania's energy security using Traffic Light Model. This analysis will give the answer to the research question of this thesis and show how Union policies reflect Lithuania's policy preference. Step by step all the energy security risk will be discussed showing the changes related to EU policies.

4.1 Intolerable Risks

As already showed in Figure 1.2 there are two types of energy security risk which cause particular danger to Lithuanian energy security: dependence on single supplier and lack of transparency, experience and competence. These risks have a high possibility of occurrence and the extent of consequences might be rather big.

Let's start with the first one. Dependence on single supplier is Lithuania's historical heritage from long years being a part of Soviet Union and belonging to its single network. And as it has been experience in the past very often this can be used as a political tool. To escape this situation more energy connection should be established between Lithuania and western and northern members of the Union. Here energy infrastructure project plays a very important role.

Before Lisbon treaty EU had a TEN-E program which is still being conducted, with the budget of 155 million euros for the period 2007-2013. This program was established in the last decade of 20th century when Commission prepared benchmarks and financial regulation and set TEN-E policy. It has four main goals: 1) support the formation of internal market, 2) reduce isolation of the region which are in adversity, 3) ensure and diversify energy supply in the ES in cooperation with the third countries, 4) promote sustainable development and environment protection. This policy involves electricity, gas and alkene transmission grids. Unfortunately, EC in its Communication on energy infrastructure priorities for 2020 and beyond confirmed the necessity to revise the TEN-E policy and financing framework. The need for a new

method to identify projects of common interest was required.¹⁰⁶ It is obvious that this program did not manage to reach its goals, especially in Baltic Sea region. TEN-T program with its limited focus on grants for feasibility studies and lack of adequate risk reduction instruments is not suitable for future development of EU energy infrastructure.

Post- Lisbon agenda introduced new ways of improving the situation in the field of infrastructure. In this matter very important was already mentioned European Council meeting in February 2011. Heads of governments then agreed that ‘The internal market should be completed by 2014 so as to allow gas and electricity to flow freely’ and what is very good news for Lithuania, they announced that ‘No EU Member State should remain isolated from the European gas and electricity networks after 2015 or see its energy security jeopardized by the lack of the appropriate connections’.¹⁰⁷ It seems that Member States managed to reach an agreement and thus more attention to improved infrastructure will be given in the future.

In practice these statements became a Regulation with new financial instrument, which should provide means of financing adequate for current need of the energy sector. The Regulation on Guidelines for trans- European Energy infrastructure covers electricity transmission lines, storage, smart grids at both transmission and distribution level, gas high pressure pipelines, storage LNG/CNG.¹⁰⁸ The overall the aim of this Regulation is to ensure that 12 priority corridors and areas that have been identified will be implemented in timely fashion.¹⁰⁹ The new financial tools were introduced in order to reach this aim.

EC presented regulation which established Connecting Europe Facility (CEF) under which a total of 50 billion euro would be committed in 2014-2020 investments in Europe’s transport, energy, and digital network improvements. Almost 9.1 billion euro will be given to the energy infrastructure projects. That is the biggest amount ever given to the energy projects. It is also important to note that this is the first

¹⁰⁶ European Commission, Communication *Energy infrastructure priorities for 2020 and beyond - A Blueprint for an integrated European energy network*, Brussels, November 17, 2010

¹⁰⁷ European Council, Conclusions, Brussels, 4 February 2011

¹⁰⁸ CNG – compressed natural gas, LNG – liquefied natural gas

¹⁰⁹ C. Sikow- Magny, *The energy infrastructure package, EU Energy Law and Policy Yearbook 2012*, Claeys and Casteels, 2013, P. 26

time that, upon creating a centralized mechanism, the EU will finance the creation of large- scale energy infrastructure from budgetary funds.¹¹⁰ This could be named as a perfect example how aims established in the treaty of Lisbon are implemented and principle of solidarity is strengthened in practice. Now such small states as Lithuania have a chance to improve their infrastructure.

Lithuania's intentions here are quite obvious – to implement energy infrastructure projects that would integrate its energy grids into the EU energy grids and systems and help eliminate the country's energy isolation as well as ensure the security and reliability of the energy supply.¹¹¹ The problem with such projects is that most often they are not commercial attractive, in order to be implemented it is necessary to secure EU financial support. In this way support from this new facility will be given only to those projects that cannot give any economical return. Moreover, money from CEF will be given to projects which are dealing with high priority energy corridors and fields. In general European Commission set three criteria which have to be fulfilled in order to get financial support: 1) the strengthening and integration of the internal EU energy market, 2) increasing supply security, and 3) sustainable development and environmental protection. It is also important to note that regional criteria should be implemented, that means the project should be beneficial to at least two member states.¹¹²

It can be observed that all these criteria are very convenient for Lithuania. They narrow down the list of possible projects to be financed and put Lithuanian projects on the top of the list. Such projects as the gas link between Lithuania and Poland or second electric power link Lithuania and Poland would fulfill most of the criteria they would improve supply security and reduce market concentration. What is more, these projects would be beneficial not only for these two countries, all Baltic regions would be beneficial. CEF is giving states with very constrained financial recourse an opportunity to increase their levels of energy security. One of these projects is already being implemented.

¹¹⁰ A. Molis, *EU energy infrastructure development financing in 2014 – 2020*, Energy Security Center, 2011, P. 82

¹¹¹ Ibid. P. 83

¹¹² More about CEF: <<http://ec.europa.eu/energy/mff/facility/doc/2012/connecting-europe.pdf>>

LITPOL link is a project supported by EU financial resources. It is building the electricity grids connecting Lithuania and Poland with the Western Europe electricity system. According to the free market rules, the direction of the energy supplies will be determined by the needs of each country. For instance, the possible shortage of energy in the Baltic Sea region, after the decommissioning of the Ignalina Nuclear Power Plant, is going to be compensated by the energy import. LITPOL Link is expected to fully operate by the end of 2015. Implementation of this project would mean the creation of common Baltic market.

However, two problems might rise during the process of using the tools given by the EU. The first one is closely related to the second intolerable risk, there is possibility that Lithuania will not be able to use this given opportunity, because of the lack of experience and expertise. The encouraging fact is that Lithuania already has experience in implementing similar project. 131 million euro grant from the European Energy Program for Recovery allowed beginning implementation of NordBalt project linking Lithuanian and Swedish electricity grids. Second problem is related to the regional profile of the projects in the CEF. As it was in the past separate countries could as for EU support for similar projects, now it became not possible. Projects have to be prepared not by the governments but by regional groups. Lithuania should not have any problems with their neighbors Latvians or Estonians; however the most important ally at the moment should be Poland. And the relations with this country are quite complicated because of the Polish minority issues in Lithuania. This problem will be discussed in more detailed in the next chapter.

In general it can be claimed that EU is creating instrument that would allow Lithuania to increase the level of connections with western and northern neighbors and increase the level of energy security. What is more financial support for energy infrastructure would allow Lithuania abolish the acceptable energy security risk. Vulnerable energy infrastructure in the country should be fixed as the international connection is hardly possible with old and limited grids. New projects should also take into account renovation of local electricity and gas transmission lines. Moreover, European Union has created more means to strengthen Lithuania's energy system independence.

One more EU decision that would increase Lithuanian energy independence is Council and Parliament regulation Nr. 994/2010 on security of gas transition, the purpose of this regulation is to secure means which would ensure uninterrupted gas supply, especially in case of difficult climate condition or supply disturbance. In order to reduce the impact of potential crises triggered by the disruption of gas supplies states should facilitate the diversification of energy sources and gas delivery routes and supply sources. In simple words that mean that Member States has to make sure that there would be at least two sources of gas supply. Member States has to take necessary measures no later than December 3th, 2014.¹¹³ It is important to note that regulation is legally binding document and all member states has to implement it.

This means that Lithuania has to find another source for gas supply. Building new infrastructural objects would be most probably the only way out to avoid possible EU sanctions for noncompliance with Regulation. Of course Lithuania could take the easy decision and import gas from Latvia, but from the same Gazprom, this could be considered as a second option, however it would not reach the goal of the regulation.¹¹⁴ Government of Lithuania had the same opinion. May 2012 Government approved the law which gave the start to the building of LNG (liquefied natural gas) terminal in Klaipeda. This would allow Lithuania to improve infrastructure and import gas not only through pipelines from Russia, but would have many other import options. Before this Baltic States including Lithuania are very dependent on Russian recourses, gas as the primer energy resource in Lithuania has 30 percent of the market, while EU average is 6, 5 percent.¹¹⁵ This mean that in case of problems with infrastructure or political conflict Lithuania would face major difficulties in ensure state security. It is important to note that Regulation No. 994 pays much attention to energy island, such as Baltic States. Article 6 oblige these countries to creative alternative gas supply possibilities until the December 3th According to the Lithuanian energy security evaluation study which was made by Energy Security Research Center to evaluate period 2007 – 2011, project building LNG terminal in Lithuania would increase its

¹¹³More about the Regulation, Official Journal of European Union, L295/1, 2010:
<<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:295:0001:0022:EN:PDF>>

¹¹⁴Derived from the interview on January 21th

¹¹⁵A. Molis, *Suskystintų gamtinių dujų terminalo plėtros planas*, Klaipėda, 2011, P. 25

energy security levels by 6 percent¹¹⁶. Looking from the energy security point of view this would increase its levels. However some economic questions should be taken into account.

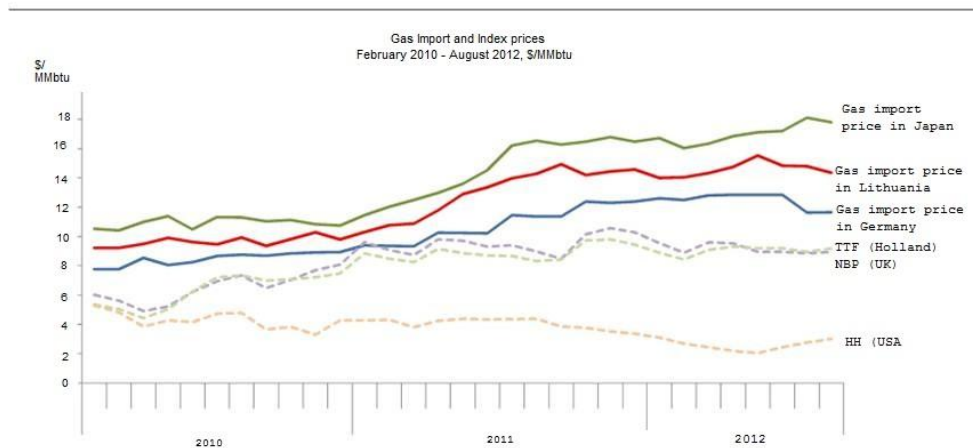
The important issue here might be the price for the gas; however it has been counted that after building the LNG terminal price should drop by 10-20%¹¹⁷. Because of its dependence on single supplier Lithuania today is paying bigger price than the market price. You can see the difference shown in the *Scheme No. 2*. At the moment there are 16 companies that are participating in the competition for importing LNG to Lithuania, this gives a solid ground for negotiation on the prices. What is more, bringing competition to Lithuanian gas market might cause the drop of Gazprom gas prices as it no longer be the only gas provider in the state. On the other hand reliance on the gas markets might bring instability in the energy sector, because of the fluctuation in the prices. This means that any accident in the market (for example severe weather, operating mishaps, or planned maintenance) can cause sudden increase in gas prices because of the uncertainty of supplies. However, European Union has created a tool for its member states to avoid these possible threats coming from the market. It is called Third Party Access (TPA) Exemption which mainly states that some new investments, particularly cross border gas pipelines and LNG terminals, as well as cross border electricity interconnectors can be particularly risky. If, exceptionally, such projects cannot be realized if the rules on third party access, tariffication, congestion rents or (since 3 March 2011) ownership unbundling were applied, national regulators may "exempt" them entirely or partially from the respective rules of the EU energy acquis for a timely limited period.¹¹⁸ In this case it gives the member state a way to deal with problems that may rise because of opening its national market to the international market. Until now Lithuania has not asked for any exemption, however building a pipeline with Poland might require one, but this project at the moment is only in the initial stage, that is why evaluation of TPA exemption is hardly possible.

¹¹⁶Lithuanian energy security annual review 2011-2012, Energy security research centre, Kaunas, 2013, P.23

¹¹⁷Development Plan of LNG terminal in Klaipeda <<http://www.oil.lt/index.php?id=546>>

¹¹⁸European Commission website on Energy Infrastructure, <http://ec.europa.eu/energy/infrastructure/exemptions/exemptions_en.htm>

Scheme No.2 Gas import and index prices in the international market



Source: LNG terminal in Klaipeda development plan. <http://www.oil.lt/index.php?id=546>

The other issue related to the building of LNG is its cost efficiency, as building a terminal is an expensive action¹¹⁹ and it requires big investment, as well as the cost of transaction should be taken into account. It is a considerable burden for such a small country as Lithuania. Despite that, it seems that building LNG is more geopolitical decision, Lithuania is acting according to “willing- to- pay¹²⁰” principal where the main goal is to reduce dependence on Russian resources. Even not knowing all the economic outcomes state is willing to pay for the project to reach their independent.

Taking into account all these considerations, the argument is that despite some inaccuracies EU is in accordance with Lithuania’s preferences in Union’s common energy policy, giving the right tools to increase its energy security. However, all the actions might not reach desirable result because of the situation in Lithuania.

¹¹⁹The total amount of the project now is approx. 705 million Euros

¹²⁰S. Jesdapapit, Willingness to Pay (WTP) < http://www.adpc.net/ece/ACT_man/ACT-4.2-WillingnesstoPay.pdf >

This might happen because of the lack of high quality expertise in this field as well as not efficient experience. Corruption even though not being in the alarming levels can cause some problems as well. Lithuania has already experienced how lacking of knowledge and experience might cause loss of the EU funds. Energy sector is not an exception here. European Court of Audit has criticized Lithuania for its inability to use EU funds effectively. Recent report stated that Lithuania as a country receiving largest contributions from the Cohesion Fund and European Regional Development Fund for energy efficiency measures for the 2007-2013 programming period did not managed to fulfill its obligations. The audit concluded that the right conditions in programming and financing had not been set to enable cost effective energy efficiency investments, and the audited energy efficiency projects in public buildings were not cost effective.¹²¹ More monitoring was recommended and new measures for project evaluation were set. In this particular case Lithuania lost its status as a reliable partner and future financing possibilities were minimized. Thinking that such audit result would change situation in Lithuania would be misleading, as this was not the first time similar situation happened before and government did not take necessary measures for situation to improve. It seems that more EU monitoring does not have any effect on Lithuanian institutions as one of interviewers stated: “Anyone else expect us cannot fix this, there has to be a need from the government to do that. It is important to involve experts that have sufficient knowledge about this sector, because we have to admit that gas is not a simple good. And that is not the first and most probably not the last time Lithuania receives negative remarks from Brussels. Every new minister just tries to deny all these critiques instead of fixing the situation.”¹²²

Moreover, that is not the only problem here. Even lacking expertise in this field government institutions somehow neglect the possible help from the experts in energy field. The situation now can be called as confrontational as for the first time since 1994 when it was established Lithuanian energy institute was not invited to participate preparing Lithuania’s energy strategy. Most of the energy experts are talking publically about government unwillingness to take into consideration their opinion. This

¹²¹European Court of Auditors, PRESS RELEASE ECA/12/55, Luxembourg, 14 January 2013, <<http://eca.europa.eu/portal/pls/portal/docs/1/19614746.PDF>>

¹²² Derived from the interview, January 21th

situation turns out to be one of the reasons why referenda for the new nuclear power plant resulted in such a big opposition in the society. Ignoring opinion of the experts resulted in big dissatisfaction in the society.

To conclude this sub-chapter it can be argued that European Union had taken few major steps to improve to situation in the field of energy. If using all the tools given and implementing regulations Lithuania should become less dependent on single supplier and increase their level of energy security. On the other hand economic factors should be taken into account, as well as, the lack of experience and knowledge might impede the process. And ignoring the result of audits and not letting energy experts to participate will not improve the situation. In the economic sphere price and transaction risk should be taken into account when establishing new infrastructure and interconnections.

4.2 Tolerable risks

This chapter will deal with risks that need to be abolished, yet over a longer period of time than the intolerable risks. The extent of consequences in the Tolerable risk groups is lower than in the previous one. In Lithuania's case three such risks were defined and each of them is somehow related to the EU agenda.

The first one, vertical integration of the energy sector is a risk that should be automatically eliminated with the "Third Package" being fully implemented. The term "Third Package" or "Third Energy Package" refers to the package of EU legislation on electricity and gas markets that entered into force on 3rd September 2009. The purpose of this legislation is to further liberalise European energy markets. This package is composed of two directives concerning rules in regard to common gas (2009/73/EC) and electricity (2009/72/EC) markets, and three regulations: on conditions for access to the natural gas transmission networks (715/2009), on conditions for access to the network for cross-border exchanges in electricity (714/2009) and the establishment of the Agency for the Cooperation of Energy Regulations (713/2009). EU member states had 18 months until 3rd March 2011 to transfer these two directives to their national legislation. This package is important because it basically states the unbundling of the gas and electricity sectors. This would suppose an effective

separation between the operation of electricity and gas transmission networks from supply and generation activities. Lithuania was one of most active supporters of the Third Package implementation and has chosen the most radical to do that.

Government of the country decided that implementing the Directive would be more beneficial to the country than to negotiate on derogation. Lithuania announced that it would divide its company “Lietuvos Dujos” into a gas distribution network and gas sale companies, the latter of which would be controlled by the government. Lithuania was the first of the Baltic States to have started the implementation of this Directive. This can be explained by the fact that Lithuania is paying approximately 15 proc. bigger price for natural gas than other Baltic States and taking such radical steps might be perceived as an attempt to influence and force Gazprom to reduce the prices.¹²³ However, “Gazprom” being a shareholder of the company was not satisfied with the decision and claims that the Lithuanian government is using the EU decision for nationalising the company.

On the other hand, the comments from Brussels are encouraging; it has been noticed that Lithuania could constitute an example for other member states on how to reform their energy sectors. Commissioner Gunther Oettinger appreciated Lithuania’s efforts to reorganize its gas sector according to EU regulations. In the meeting with the Lithuanian minister of Energy on 7th September 2010 he stated “Our common goal is to protect the interest of consumers. We value your way of dealing with reform in gas and electricity sectors”.¹²⁴

Receiving strong support from the European Commission, Lithuania took further steps to liberalise its gas sector. In summer 2011 Lithuania’s Parliament adopted a law on natural gas. This law provided an action plan according to which the EU Third Energy Package should have become a reality. On 8th October 2011 the Lithuanian government approved plan to divide “Lietuvos dujos”. According to this plan, the company would have to be divided by the end of October 2014. Before this was announced, an action plan was discussed in Brussels with representatives from

¹²³K. Dudzinska, Energy Policy in the Baltic States – United or Separate? *The Polish institute of International Affairs, Policy paper No. 37*, 2012, P.6-7

¹²⁴ES energetikos komisaras: Lietuva puikiai paruošė namų darbus, September 7th, 2010, Press release of Ministry of Energy of Republic of Lithuania, <<http://www.enmin.lt/lt/news/detail.php?ID=963>>

European Commission and the German company “E.ON”, which is a shareholder in the company. In the meantime, “Gazprom” was ignoring the process.

Non participation of this company in the negotiations was unwelcomed as unbundling may only be implemented having consent between all interested parties. However, if this scenario is not possible, the company will be reorganized in accordance to Lithuanian law. Three new companies would be established, while the share of stocks in these companies would be divided proportionally according to the share in “Lietuvos dujos”. Nonetheless, shareholders would lose their right to vote in some of the companies. Lithuania’s interest here is well defined: the government seeks to have control over the gas transmission operator, the company which will administer gas pipelines in Lithuania.

Fortunately, no legal measures had to be taken as in the end of May 2012 shareholders of “Lietuvos dujos” including Gazprom has reached an agreement on unbundling of the company according to the EU standards.

If every step is taken as planned, Lithuania should reach the implementation of Third Energy Package, which implies that the aim of market liberalisation will be accomplished and the monopolistic nature of country’s market will be reduced. However, it is not evident yet how this Directive will influence Lithuania’s energy system, taking into account the fact that previous two directives did not bring expected result. Moreover, the decision to choose the most radical way from implementation was a matter of discussion in Lithuania. There was expressed concern about relations with Gazprom and lost possibility to negotiate on the lower prices. Some experts doubt about the practical result of this directive. This idea was expressed by the expert for the NATO energy security centre of excellence: “I think the main goal of this Directive was to build a competition in a gas sector, in order to decrease the gas prices and ensure reliable resource supply. But if Lithuania wants to achieve all these goals decomposing of one company would not give these results.”¹²⁵ This basically states that even implementing the Third Energy Package would not secure the creation of a market.

¹²⁵Derived from the interview, February 16th

To sum up what this energy risk entails, the conclusion can be made that the EU has given Lithuania an opportunity to change the situation in their gas sector and avoid the situation of vertical integration. On the other hand, further practical evaluation would be only possible after 2014. Even though the Third Energy Package entails enough legal significance to improve the level of energy security, the practical benefits are, unfortunately, dubious. On the other hand some EU policies outperform.

In the field of renewables Lithuania is doing much better. This is important for a few particular reasons, but mostly because of the fact that the development of renewable energy sources (RES) increases the total amount of energy generated in the country. It is also significant because of the diversification of energy sources, which consequently reduces the demand of imported energy and the dependence on countries exporting energy resources.¹²⁶ Lithuania is one of the leaders in this field in the EU; it reached a 15.2% increase in usage in 2010. EU financial and political support should ensure that sufficient progress is taking place. Lithuania's law on renewable energy resources raises three main objectives. Firstly, to increase the share of electricity generation from renewable energy sources by no less than 20% by 2020. Secondly, the share of the centralized heating supply from renewable energy sources is planned to be increased by no less than 60% by 2020, while the share of renewable energy sources for the heating of households – by no less than 80%. Finally, the government is planning to increase the consumption of biofuel by no less than 10% in all types of transport before 2020.¹²⁷ Lithuania possesses a well-established legal base to continue the development of renewables. Significant achievement has been reached in the usage of biofuels, wind and solar energy, wood and wooden waste. It goes without saying that the law on renewables was made in accordance to the recommendations of the European Union and specifically with the *Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources*. This directive establishes a common framework for the production and promotion of energy from renewable sources. It is part of a package of energy and climate change legislation which provides the legislative framework for

¹²⁶S. Milčiuvienė, A. Tikniūtė, Promotion of renewable energy sources: review of legal instruments in Lithuania and the EU, *NATO Energy security centre of excellence Forum*, Vol. 1, 2011, P. 30

¹²⁷Republic of Lithuania Law on Renewable energy, adopted in May 12th 2011

<http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=398874>

Community targets concerning greenhouse gas emission savings. Member states have to establish action plans to set the share of renewable energy in the state, apart from having to build the necessary infrastructure for energy from renewable sources in the transport sector.¹²⁸ But as in the gas sector, the economic questions should be taken into account.

Energy received from renewable sources is more expensive than traditional sources; thus, the introduction of renewables into the market is complicated. This Directive provides for individual promotion instruments concerning the selection of renewable energy sources in each country. Lithuania has chosen a fixed tariff as a promotion measure aimed at supporting investments. Fixing the price with reference to the production costs creates conditions for diversifying tariffs by production technologies. This promotion measure ensures a long-term and stable income for producers, thus reducing the risks pertaining investment and the possibility of a precipitate increase in the prices of the generated electricity. This measure aims to motivate the producers in reducing energy production costs and encourage technological innovations.¹²⁹ In general all programmes aimed at the promotion of renewables are supported by EU funds (EU Structural Funds, Rural development Programmes). For example, for the period 2007-2013 m. Lithuania received 239 928 435 Lt (approx. 70 million euros) for projects related to renewable energy from the Cohesion Fund. Financial support from the EU is a major factor concerning Lithuania's good performance in this field. This is an important step as evolution of renewables market is particularly important to further development of independent energy sector in this country.

In Lithuania renewables are perceived as a way of diversification in the energy market and decreasing dependence on a single supplier, as well as creating competition between companies. Investments in renewable energy should result in the de-monopolization of the energy sector, which would therefore minimize the energy security risk. However, the situation is controversial; the same monopolies might be created in the sphere of renewable energy. To obtain necessary resources for the production of the renewable energy can be complicated. If we look at the market of

¹²⁸More on Directive 2009/28/EC, Official Journal of European Union, L140/16, 2009 : <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=Oj:L:2009:140:0016:0062:en:PDF>

¹²⁹Milčiuvienė, P.32

biofuels in Lithuania, there are only few companies who produce it, entrance of other actors is hardly possible. In this way situation is created when the monopoly of biofuel energy is created and the security levels of the state are threaten by the risks of secure supply and lack of competition. “If we think that biofuel is easy to produce, and everyone who wants can to that, we are mistaken. There are two – three companies which produce biofuel at this sector as well as in electricity; we should not expect a decrease in prices as well. Companies seeing the prices of natural gas will not be interested in decreasing their prices; the best scenario is price drop by 5%.”¹³⁰ The other problem with renewables is that, despite the fact that Lithuania is one of the leaders in the EU in using this kind of energy, this result was reached using biofuels. This type of energy is not a ‘real’ renewable energy, as its sources can dwindle, and Lithuania has merely developed a low level of solar, wind or water energy usage. Recent troubles with the development of solar power plants and issues with the financing of new projects have shown that there are still problems which need to be solved. However, if the implemented policies have positive effects on Lithuania’s energy security risks, the positive influence of the EU’s decision will surely be observed. The use of financial support now depends on national authorities and whether they will manage to use the opportunity suitably. Evaluation: EU policies increase the level of energy security in using renewables.

Taken into account all tolerable risks, the conclusion can be made that the EU establishes a good basis for improvement in the gas sector by attempting to avoid monopolistic situations in this sector. Some improvements are visible in field of renewable energies, which also improves Lithuania’s levels of energy security. Even though there are some issues in this sector they do not overshadow the benefits.

¹³⁰ Derived from the interview, March 24th

CONCLUSIONS

This work aimed at finding out whether the European Union was acting as an agent fulfilling Lithuania's as a principal preferences in the energy security. The intent of this research was to analyze how EU common energy policy influences Lithuania's energy security risks after Lisbon treaty came into force.

The first two chapters have created a theoretical framework which established a base for the empirical findings of the thesis. Rational Choice Institutionalism is a theory which defines the relations between the state and the institution; in this case, between EU and Lithuania. This theory is particularly important, as the main goal of the thesis is to examine how these relations influence the member state's energy security. Despite a few shortcomings, this approach has led to a research model that contributes to answering the main question in this thesis.

The research model chose was the Traffic Light Model of tolerable, intolerable and acceptable risks. It helped to clearly define factors which led to the evaluation of EU policies regarding Lithuania's energy security level. The Traffic Light Model is useful in that it demonstrates which energy security risks, when demolished, lead to higher levels of energy security in Lithuania. Two main groups of risks were determined. Tolerable risks are those that, although they pose a danger to the state's energy security in high levels, should be dealt with by means that can be implemented—within reasonable limits—over a longer period of time. Intolerable risks are the ones that can bring the biggest damage to state's energy security if not minimized as soon as possible.

The third section of this thesis was describing the main novelties brought by Lisbon treaty and its practical evaluation in the EU. This was done in order to define main policies that took place in this period and how they may influence energy security of the member state.

After careful analysis in the empirical part, the main finding of this thesis is that EU common energy policy has a positive influence on Lithuania's energy security. It can be argued that the European Union's actions are minimizing energy security risks in this country. The Union has been acting as an agent fulfilling

principals' preferences, even though most of the policies were regulations sent from Brussels, all of them were in accordance with Lithuania's energy policy priorities.

The analysis of the tolerable type of risks has shown that EU as the agent has created conditions in Lithuania for increasing its energy security, and particularly in creating conditions for the better usage of innovations in the energy sector by using renewable. The question of how the vertical integration of companies would be minimized and single market created by the Third Energy Package is not clear yet, but Lithuania has support from Brussels, which should encourage further actions.

The situation with intolerable risks is positive. In view of the country's dependence on a single supplier, the European Union has given Lithuania legal and financial tools to decrease this risk. For example, the Connecting Europe Facility should support major energy infrastructure projects in the Baltic States, including Lithuania. What is more, this would also reduce the acceptable risk (vulnerable infrastructure), as creating more connections with North and West European Union countries would mean a renovation of old infrastructure.

Issue that is raised in this section is possible market risks that might be damaging states energy security. Lithuanian government is not taking into account all economic factors. Lithuania focuses on the political side of the energy security risks while the economic aspects are not given enough attention. The rationality of Lithuanian decision making is focused on political self-sufficiency aspect. In this way acting according to 'willing-to-pay' principal where the main goal is independence of its energy system. On the other hand EU suggests a tool for minimizing these risks introducing the TPA exemptions.

However, another problem emerges concerning the competence of public officers that are working with energy projects. EU has no major influence on decision making and implementing in Lithuania, and more monitoring does not have any significant impact here. This issue might lead to the insufficient usage of given opportunities in establishing higher levels of energy security in the state.

The overall final conclusion is that the EU as an agent is acting in accordance with Lithuania's priorities in creating a common EU energy policy after the

Lisbon Treaty came into force by providing Lithuania with the necessary tools for increasing its energy security. The problem here is that the increase in national energy security would have better results if changes inside the country's public sector would be implemented.

As the given research model only tackles the political issues related to the state's energy security, further research analysis should deal with the economic dimension of energy security in the EU politics, paying particular attention to the cost and benefit of building new infrastructure and how this could influence energy prices. Another topic that could be evaluated in future analyses would be the external factor of EU energy policies on the energy security of its member states; this topic is relevant considering that the Lisbon Treaty brought significant reforms in this field.

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